Nation's Business

A USEFUL LOOK AHEAD

NOVEMBER 1961

FIRST OF
A SERIES

QUALITIES OF VICTORY

COURAGE

PAGE 31

Emergency controls: What to expect PAGE 36

Washington reaches for your city hall PAGE 34

New service: World business outlook PAGE 68

Why customers buy PAGE 38



Nine C-Series tilt cabs — including America's lowest priced tilts—from 18,000 lbs. GVW to 65,000 lbs. GCW. H-Series tilts offer Diesel as well as gas power with GCW's up to 76,800 lbs. All permit 40-foot trailers within 50-foot over-all length, even with sleeper cabs.

The only gas engines so dependable they're warranted for 100,000 miles!

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Today, when competent management requires the ultimate in cost control, Ford provides unequaled protection against truck engine expense.

Each Super Duty V-8 engine, 401-, 477- and 534-cu. in., is dealer-warranted for 100,000 miles. Ford dealers will replace all major engine parts (including block, heads, crankshaft, valves, rings, pistons) found to be defective in material or workmanship. Warranty covers full cost of replacement parts for 100,000 miles or 24 months, (or 3,000 hours of operation as a power source other than propelling the vehicle), whichever occurs first . . . plus full labor costs for 50,000 miles, 12 months, or 1,500 hours, sliding scale thereafter.

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Extra tough tandem models feature heavy-gauge sheet metal and high-tensile steel frames for longer truck life. Eaton or Timken axles from 30,000 to 38,000 lbs. capacity, plus many aluminum options, mean less dead weight, more payload, more profits. Also available: new tilt-cab tandem models.

PRODUCTS OF Ford MOTOR COMPANY

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"We phone customers when we think they're ready to buy"

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Pak-R-Board Corporation, Marshall, Michigan

"From our experience in selling to the meat packing industry, we know just about how long a supply of our luncheon meat boards will last a customer," reports Mr. Crawford. "Before he runs out, we call him Long Distance. We know he's ready to buy. We get 90% of our out-of-town sales this way.

"Is telephone selling profitable? Recently, a $1.75 phone call produced an order worth $1100. That's the way Long Distance is paying off for us."

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Milwaukee to Minneapolis	95¢
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Miami to St. Louis	$1.55
Seattle to Washington, D.C.	$2.25

These are day rates, Station-to-Station, for the first three minutes. Add the 10% federal excise tax.

BELL TELEPHONE SYSTEM

Nation's Business

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Published by the Chamber of Commerce of the United States
Washington, D.C.

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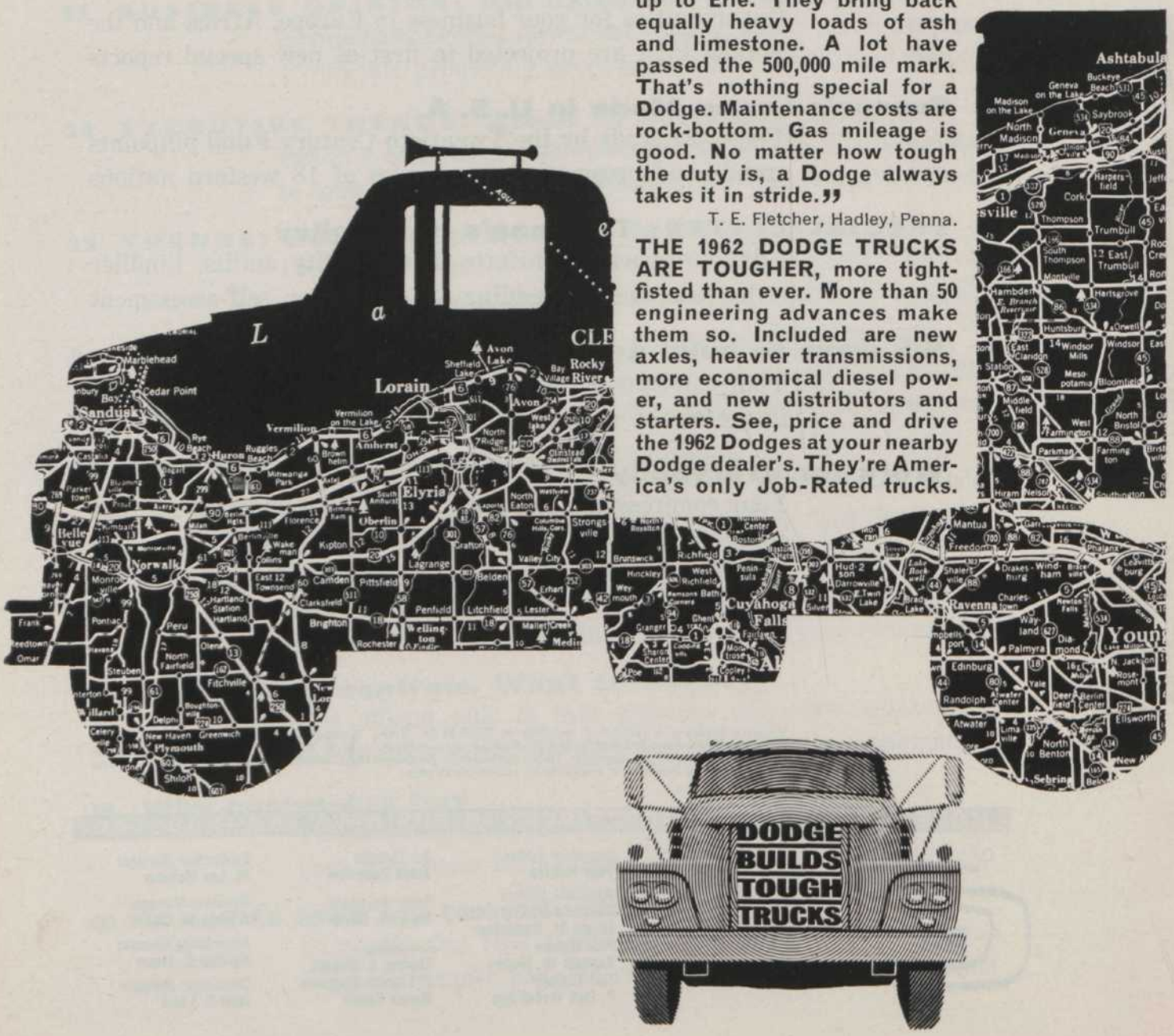
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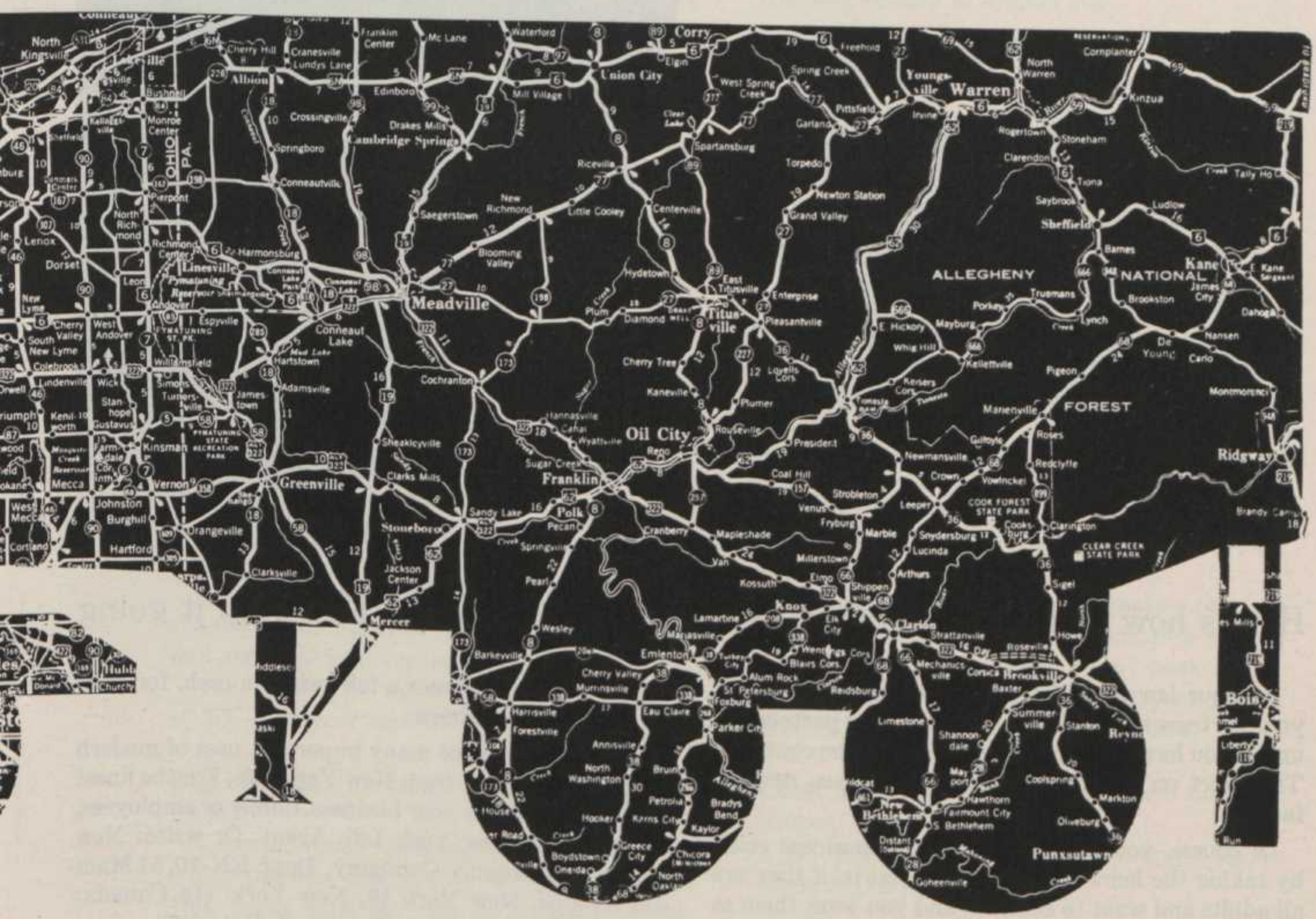
"HAULING 20-TON LOADS 500,000 MILES? NOTHING SPECIAL FOR A DODGE!!!

I own ten Dodge trucks and tractors. Many haul 20-ton loads of coal from strip mines up to Erie. They bring back equally heavy loads of ash and limestone. A lot have passed the 500,000 mile mark. That's nothing special for a Dodge. Maintenance costs are rock-bottom. Gas mileage is good. No matter how tough the duty is, a Dodge always takes it in stride."

T. E. Fletcher, Hadley, Penna.

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The loss of a partner can close a business for good!

Here's how Business Insurance from New York Life can help keep it going

As your lawyer will tell you, the death of one of your partners spells the legal death of your partnership unless you have an express agreement to the contrary. The effect on your business can be serious, perhaps fatal.

Of course, you can try to keep the business going by taking the heirs into the firm. That is, if they are all adults and want to come in, and you want them as partners. Often this proves impossible, or very unsatisfactory. You can buy the heirs out, if a price can be agreed upon—but could you raise the cash? In many cases the business will have to be liquidated, piece by piece, and at sacrifice prices!

Fortunately, the problem can be solved. A business continuation agreement, funded by Business Insurance from New York Life, can guarantee surviving partners complete ownership of a firm. It also assures the heirs of the deceased partner a fair price, in cash, for their interest in the business.

This is only one of many important uses of modern Business Insurance from New York Life. For the finest insurance plans for your business, family or employees, talk to your New York Life Agent. Or write: New York Life Insurance Company, Dept. EN-10, 51 Madison Avenue, New York 10, New York. (In Canada: 443 University Avenue, Toronto 2, Ontario.)

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WASHINGTON **BUSINESS OUTLOOK**

Try this riddle on your friends.

What do these products have in common?

Bar of Good Humor ice cream, an Underwood typewriter, package of Kool cigarets, bar of Lifebuoy soap, box of Twenty Mule Team cleaning powder.

Answer:

They're all well known American products made and sold by firms owned by or affiliated with foreign investors.

Pace of foreign investment in U. S. firms is being stepped up.

Funds are coming into the country now at annual rate exceeding $200 million.

Total invested here by foreign businessmen is estimated at more than $5.5 billion.

About $3.5 billion of this comes from European investors.

Why the new rush of investment funds from other countries?

Foreign businessmen are alert to the expanding U. S. consumer market.

They're shooting for a share of prosperous sales expected in the years ahead.

American businessmen are alert to the growth of markets in other countries.

Total U. S. private investment in foreign facilities now exceeds $50.3 billion.

Sales of goods manufactured abroad by subsidiaries and branches of U. S. firms may go well above $25 billion this year.

Volume will be up from about $19 billion in '57—first year records were kept.

Big changes in foreign trade are shaping up for '62.

Expected result for Americans:

Competition will stiffen in world markets. This could slow the rate of increase in our export volume.

In this country during year ahead you can count on sharply increasing competition from goods shipped to our shores.

These import trends appear in the making:

Merchandise we buy from other countries hit top in '59.

Imports since then have been sinking.

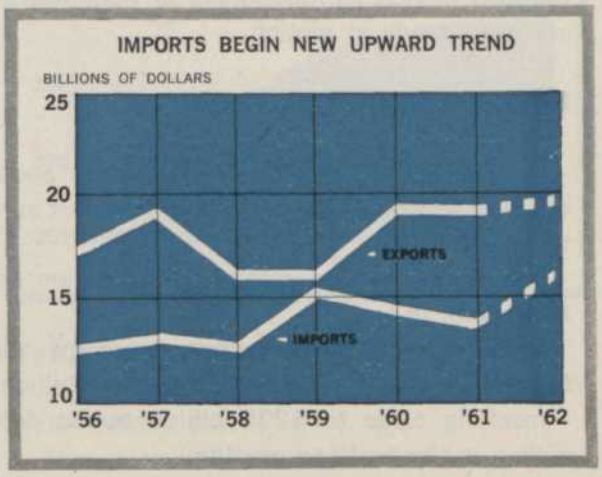
Last year's volume was $14.7 billion.

Another dip is indicated for this year.

But here's the big change taking shape:

Sales of foreign goods are picking up. A substantial rise is expected.

Shipments could shoot up to $16.5 billion next year. Volume at end of '62 will still be trending upward at a good clip.



Here's export trend: Merchandise we sell abroad reached a peak in '57. Then volume slid off abruptly for about two years.

This was followed by an impressive rise.

Rate of exports this year indicates volume around $19.4 billion, same as '57 peak.

Look for a flattening trend in year ahead, total sales ranging around $20 billion.

Look ahead to page 68 for "World business outlook: How it affects you."

On page 72 you'll find "Europe's boom: Made in U.S.A."

Another inflationary federal budget coming up next year?

It's almost a sure thing. That's how it looks in Washington at this time—despite what you've

heard. President has mentioned the possibility of a balanced budget for fiscal '63.

So have other federal officials.

But that prospect is already out the window—doomed even though that fiscal period won't begin for another eight months, won't end for another 20 months. Budget Bureau officials and government agency planners are working out details for presentation to the next session of Congress in January.

Whatever the President recommends to Congress, keep in mind that factors that'll shape the next budget as inflationary or noninflationary are already in motion.

Impact on your business?

Yes—three ways:

1. Tax reform that has been talked about for next session of Congress is now almost sure to be put off.

Legislation will be introduced but action delayed until '63.

2. Larger federal spending programs will boost the unpaid federal debt by new billions—reaching close to $298 billion public debt ceiling in the next few months.

This will mean continuously high tax collections for years to come, thus curtailing funds available to business for future expansion and modernization.

3. Government deficit spending is a major cause of inflation.

Balanced budget for '63 was more of a hope than a really bright prospect—even from the first.

Hope was based mostly on the expectation that thriving business and rising personal incomes would bring more tax dollars to Washington in the year ahead.

Business will thrive—corporate profits are expected to reach an all-time high—and personal incomes will rise substantially.

But neither will provide enough additional tax dollars to overtake rising expenditures.

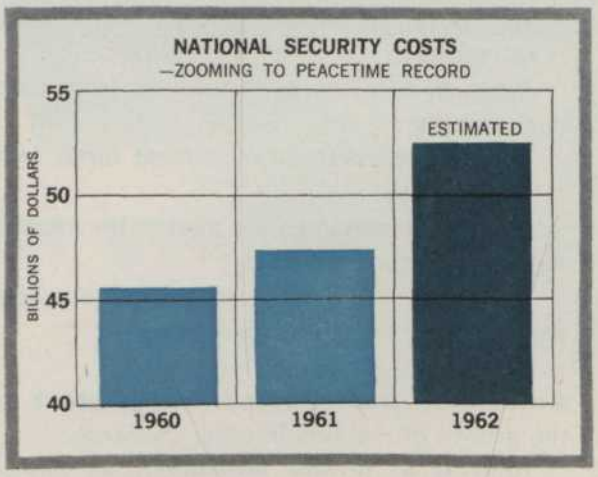
A large increase in the cost of defense has already been programed.

Beyond that there's a growing expectation in Washington that defense spending will continue to grow at a faster pace than has been scheduled and that spending will go up as much or more in the following year.

Defense has been costing about nine per cent of the nation's total output of goods and services.

Now it's headed toward 10 per cent or even higher.

Spending for other government programs also will rise substantially.



Policy split adds to the prospect of an unbalanced budget this year and next.

Among the Administration's economic advisers there is big disagreement about whether a balanced budget should be a federal goal in fiscal '63.

Some among them favor more red-ink spending as government policy—that is, they believe in a deliberate expansion of spending on Uncle Sam's cuff.

Why? Because they believe it will be needed at that time to stimulate the nation's economic growth rate.

Risk of inflation? Yes.

But some advisers hoot at inflation danger, don't fear it as most businessmen do.

They see unemployment as a greater danger to the country and believe federal deficit spending is the way to create additional jobs.

Also those who press for bigger spending programs believe there are ways to hold inflation in check (holding the line on price increases, for instance, despite wage boosts).

You can see better what guides the thinking of these advisers who want deficit spending by looking at a situation they believe may be repeated.

It's this: Two years ago Uncle Sam went in the red by $12.4 billion. This was followed by a budget surplus—a reversal of federal finance by almost $14 billion.

On the heels of this came the business decline which ended early this year.

There's broad belief among New Frontier economists that an important contributing cause to the business decline was the big switch from a deficit to a surplus budget.

Similar forces may take shape in next two or three years.

Example: Deficit this year was $3.9 billion. It's sure to be larger in '62 and is likely to be more than double.

Going to a balanced budget after that, according to some top advisers, might hurt economic expansion and could lead to a future business decline.

Hence their conclusion that the way to avoid America's next recession is to keep federal red ink flowing.

Remember: This is one line of economic thinking. Idea has many Washington followers.

It's a philosophy that could lead to a deliberate federal deficit—even though a balanced budget has been promised.

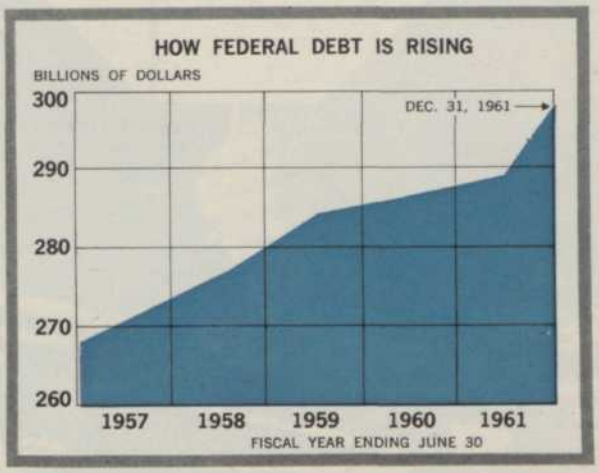
Public debt crisis is sure to come in the next session of Congress.

Reason:

Temporary federal debt ceiling is set at $298 billion. It'll fall back to $285 billion permanent ceiling at the end of next June.

That's too low to accommodate an upcoming expansion of government spending that will force new congressional action.

So it's a sure thing that Congress will again hike the temporary debt limit.



Congress will have two other alternatives:

1. Hike taxes enough to hold federal debt under current top.

This is unlikely although some tax changes are being cooked up.

Look on page 40 for details.

2. Curtail spending enough to hold down expansion of the debt.

This also is unlikely except in a limited sense.

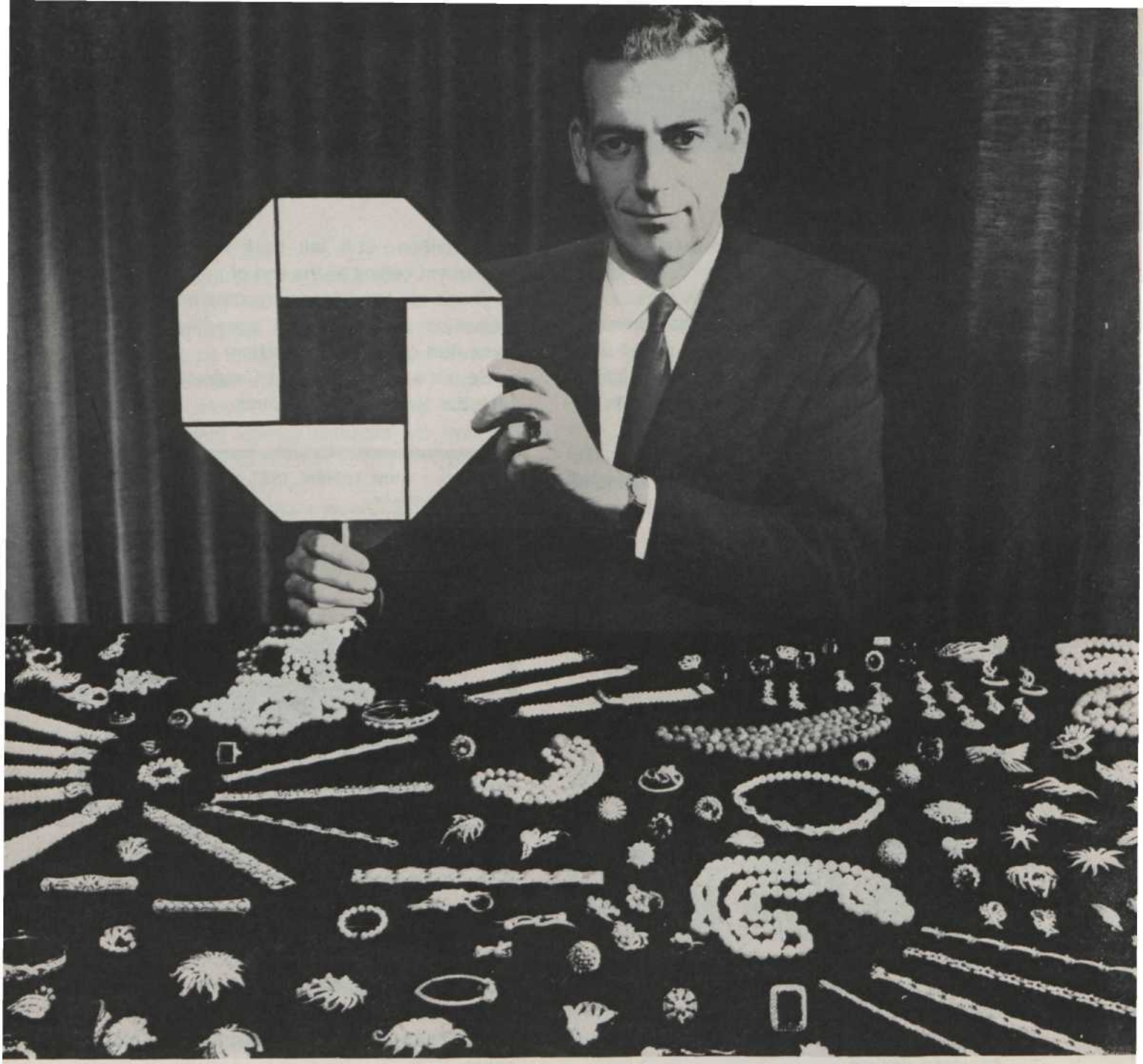
But the idea of holding down the size of the federal deficit will get much consideration and you can expect Congress to pull up the reins on some nondefense spending proposals.

Reason is this:

There's mounting fear on Capitol Hill that public debt above $300 billion is one record that constituents won't applaud.

It's regarded as an undesirable milestone from political standpoint.

This is true especially in the House of Representatives where members respond more readily to constituent pressures.



Chaseman William R. Collins displays the products of one of his small business customers.

Costume jewelry—and a symbol of greater usefulness from the people at Chase Manhattan

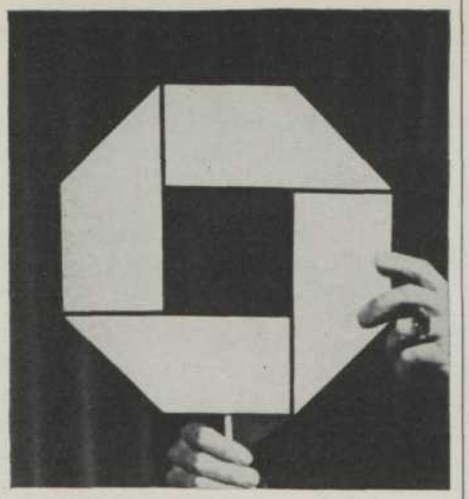
Lending money to small business is one of the things the people at Chase Manhattan like most to do. And for good and practical reasons.

The fact is that when depositors' and stockholders' money goes to work in a small business loan, men and women go to work, too. And if the business succeeds, the whole community benefits by an increase in competition that can bring a wider choice of products and better prices.

In a sense such loans are like seed corn. They go into the ground with much planning and great faith. Cultivated by men of character and ability they yield a harvest that profits all concerned, brings better living to the community, and ultimately contributes to the strength of the whole economy.

That's why there's no greater satisfaction to a banker than lending money to a business that goes places. It explains, too, why the small businessman is so welcome a customer at Chase Manhattan, and why he has a standing invitation to come in for financial guidance and assistance.

The factual report to the right is a case in point.



Holiday Loan

In the summer of 1946 three experienced New York City jewelry designers made their big decision to form a partnership and manufacture costume jewelry.

They chose Chase Manhattan as their bank and in the fall of 1947 applied for a $2,000 loan to finance operations during the holiday season.

They got their loan and along with it they got the bank's counsel—a valuable thing for artists newly turned merchants.

Today the company is well established and it continues to borrow for the seasonal peaks that help give it steady growth. And the partners still come to Chase Manhattan for financial advice and counsel and the unlimited service resources a large commercial bank can offer any-size business.

THE CHASE MANHATTAN BANK

1 Chase Manhattan Plaza
New York 15, New York

Member Federal Deposit Insurance Corporation

Business opinion:

Salesmen of federal aid meet resistance

ALMOST immediately after we received our October NATION'S BUSINESS with the editorial "Should Your City's Growth Depend on Washington," we opened a letter from Governor Frank Morrison of Nebraska inviting us to a conference to enable a number of federal experts to help us take advantage of the government's largess.

We have made reservations to attend, not for the purpose intended, but to protest both the benevolences and the spending of our money for travel and expenses of the federal bureau experts to sell us their programs.

Our voice has expanded a few decibels with the publication of our "Declaration of Independence from Federal Dependence," and copies of this document will be distributed to all those attending the governor's conference.

Because we have practiced what we preach by refusing any of several proposals to claim federal aid for local projects, we can propound our independent principles in good faith.

We are preparing an Anthology of Freedom for distribution to about 1,000 people who have shown a deep interest in our unusual experience. We have collected a number of items to be included but are seeking others of pertinent and timely importance. Your editorial would be a most welcome addition.

H. W. SHINROCK
Manager
Fremont Chamber of Commerce
Fremont, Nebr.

Unique analysis

"We Reject Federal Aid" [September] is one of the finest articles I have read on federal aid to education. It is unique in that it not only brings out facts about both government controls and controls practiced by minor bureaucrats, but also shows the direct relationship of our nation's educational system to the struggle with the international communist conspiracy.

B. G. WALSH, JR.
North Augusta, S. C.

This is the debate topic for our schools this year. I was pleased to see an article of this nature in your magazine and hope to see more of them.

TRACY L. MILLER
Washington High School
Massillon, Ohio

Lost opportunities

I read with interest "Why We Lose Foreign Customers" [Executive Trends, September].

I worked a long time in South American countries and cannot understand why most of our companies there are not able to exploit the business as they could if they would know the customs of the land, the attitude towards Americans and American merchandise, and if their staff would be familiar with customs and language.

MARTIN GUTTMAN
Camden, N. J.

Provocative truth

"Set Your Own Pace to Success" [August] is the most provocative truth I've read for some time. It is direct and well written; in short, convincing.

A. R. THIBODEAU
Sanford, Maine

Emergency advice

We request permission to reprint and distribute to our members "What to Do in Case of War" [September].

EMILE KELTNER
Secretary
National Elevator Manufacturing Industry, Inc.
New York, N. Y.

►*Permission granted.*

Brother-in-law speaks

I read with great interest "I Quit Socialized Medicine," by Dr. Dawe, [July]. As Dr. Dawe's brother-in-law, I also quit socialized medicine, and for the same reasons.

I would like to make this comment: In this world, nothing is to be had for nothing. At present, certain politicians in the United States are trying to put over the propaganda regarding the advantages of socialized medicine which was familiar in Britain at the time of the inception of the socialized Health Service in 1946. However, it must



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NB-11

Business opinion:

be obvious that the money has to come from somewhere. It would come, of course, exactly as it did in Britain, from vast increases in both direct and indirect taxation. This would have serious effects on the national economy. After socialized medicine comes socialization of other enterprises.

At present, I am in medical practice in Belen, N. Mex. I find the present system of medical practice in the United States vastly superior to the European socialized health schemes, and the best in the world. If socialized medicine is introduced, the vast queue of people in doctors' offices will, from the time element alone, preclude anything but the most casual examination. If a patient complains of cough, there will not be time to have him take his shirt off to examine his chest. It will only be possible to prescribe one of the cough mixtures which the government allows in its scheduled directions, and the doctor must just keep his fingers crossed that he has not missed a case of pulmonary tuberculosis.

JOHN N. R. TOKE, M.D.
Belen, N. Mex.

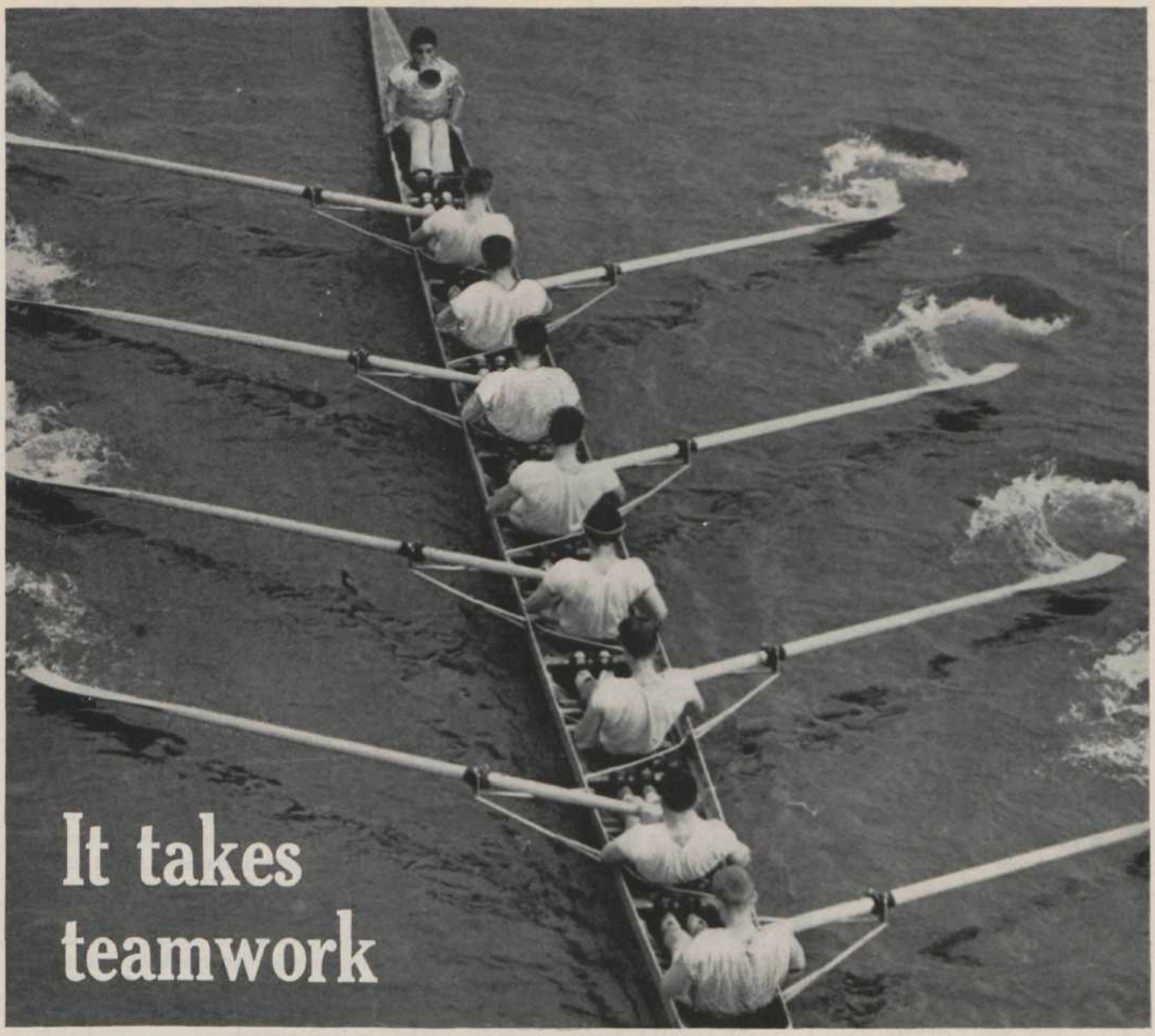
Teaching teachers

Two items in the General Electric Foundation's program bear on the problem of economic illiteracy noted in "One Crisis You Can End" [July]. Both are aimed at improving the teachers' competence in economics.

One program is the College Economics Seminar at the University of Chicago for economics teachers at the college level, and the other is part of the Summer High School Teacher Program. Originally the summer program centered around refresher courses in physical sciences and mathematics. However, with the increase in the number of programs available to science and mathematics teachers, it was decided that a more useful contribution could be made by changing the subjects of our programs to economic and guidance counseling.

There are three six-week economics courses for high school teachers at Claremont College, Purdue University and Rensselaer Polytechnic Institute. They also include trips to nearby General Electric plants to discuss with company management the economics of business.

I. H. WILSON
General Electric Co.
New York, N. Y.



to perpetuate your business and provide for your family too



IN A CLOSE CORPORATION, for example, preserving the value of your business interest is no one-man operation. You need a well-coordinated *team of experts* to help you through the rough waters of financial planning. An Ætna Life *Close Corporation Business Insurance Plan* may well offer the solution. It can assure the surviving stockholders *unhampered management control* of the firm—and at the same time provide cash for your family's future security.

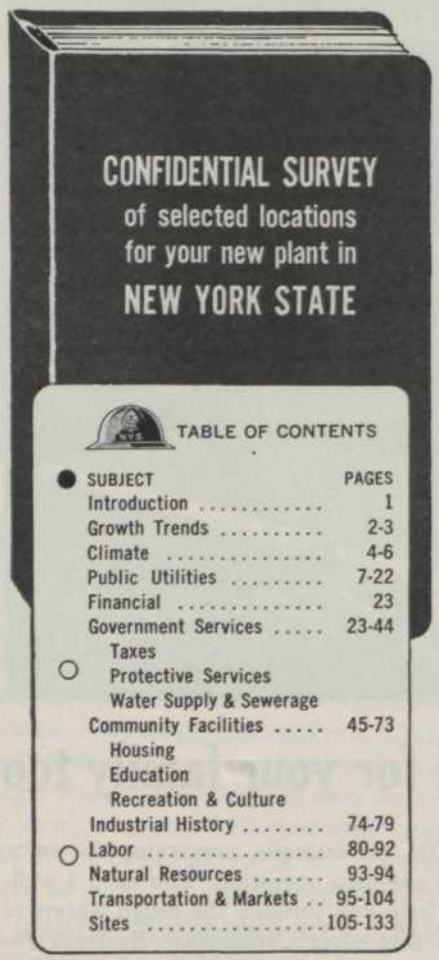
However, to develop a plan like this you need a team of experts—your attorney, accountant, trust officer and your Ætna Life representative backed by our unique Business Planning Department.

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TAILOR-MADE REPORTS. The table of contents shown above is typical of the survey of selected plant locations that we will prepare for your organization. Simply send your specific requirements on your business letterhead to Commissioner Keith S. McHugh, New York State Department of Commerce, Room 3507, 112 State Street, Albany 7, N. Y.

Keith S McHugh

Keith S. McHugh, Commissioner
New York State Department of Commerce

Executive Trends

- How to succeed in the 1960's
- Are your talents marketable?
- First report on new pay study

Your business faces four major problems in the years ahead. But it also will encounter three areas of opportunity which can help you surmount the problems.

This is the conclusion of officials of Booz, Allen & Hamilton, management consultants, in an assessment of the business future prepared for NATION'S BUSINESS.

The four problems blocking the road to corporate success are these:

Labor costs—wages, measured in current or constant dollars, have generally risen faster than prices or productivity and have contributed greatly to the fact that while net sales (all-industry average) rose some 200 per cent from 1950 to 1960, pre-tax profit margins on sales declined almost 40 per cent and net returns on investment similarly deteriorated.

Foreign competition—our rising domestic cost structure has made it increasingly difficult for American firms to compete abroad, but increasingly easier for foreign firms to penetrate our own market.

Executive shortage—by 1970 we'll need almost 50 per cent more executives than we now have to meet our expanding needs—but industry will have to draw new men, replacements, from a contracting pool of available manpower in the prime-age category.

Product life cycles—they're growing steadily shorter and businesses with a heavy mix of short-lived products must develop new ones or face extinction. What about the opportunities? Booz, Allen's long-range thinkers say there are three major ones: Diversification, improved marketing strategy and better planning by top management.

Diversification can be a tremendous assist because new products may be obtained through it, either as a result of acquisition or merger, or through increased effort in research and development.

Better marketing strategy offers opportunities for those firms catering to selective markets, accenting product quality, convenience packaging, dealer protection or other unique appeals.

Planning can be useful if an organization sets clear-cut objectives, plans specific targets for the near and short-range future and amends its plans continually in the light of changing trends.

• • •

Demand for your talents in industry today depends to a large extent on what kind of executive skill you have.

For example, demand for engineers in defense industries currently is running higher than demand in any other executive job category. Other high-demand jobs include general engineering, personnel, manufacturing, and finance.

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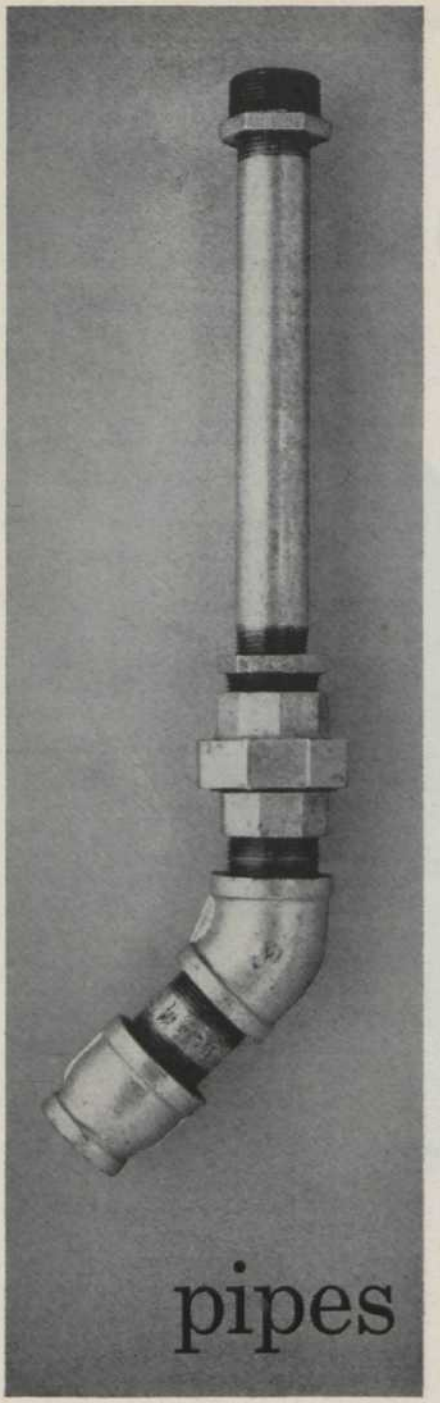
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EXECUTIVE TRENDS

continued

fications, although demand for all executives is higher today than it has been for four years.

• • •

Wide variation in the types of incentive compensation plans which American companies offer their executives is disclosed in a survey conducted by Cresap, McCormick and Paget, management consultants.

Participating in the survey were officers of 80 companies in diversified manufacturing industries.

The results show:

No two formulas used in extra-compensation plans are alike.

Some plans are limited to men in top management. In others, all supervisory personnel qualify.

Out of 75 plans tabulated in detail, 43 were on an individual basis, and in half of these, individual performance was determined informally. In 36 plans, awards were not limited in amount; in another 36, they were restricted to a maximum percentage.

Many plans have not been changed—except in a minor way—since they were instituted. A few have been changed as many as five times.

Surprisingly, 72 per cent—or nearly three quarters of the plans reported—are regarded by the companies using them as not completely effective in establishing their objectives. Only one, however, was characterized as a "waste of money."

Plans in which all employes take part—such as profit-sharing—were excluded, as were sales incentive plans for personnel other than sales managers, plans aimed solely at deferral of management compensation, and restricted stock option plans.

John F. Hartshorne, director of business research for CMP says the study makes plain the need for further research in this area to identify the soundest principles for incentive compensation.

• • •

Bird-dogging blues: Dr. George S. Odiorne, director of the Bureau of Industrial Relations at the University of Michigan, reports rising turmoil in college recruiting as result

(continued on page 21)

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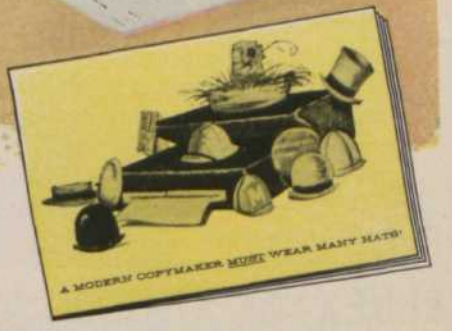


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EXECUTIVE TRENDS

continued

of "bird-dogging." That's the personnel man's term for the practice of campus recruiters hitting the campus early, snapping up the best prospects in advance of general on-campus recruiting.

If your company looks to college campuses for manpower, you might want to start laying your own plans for the 1961-62 crop of graduates now, to avoid the disappointment of seeing the best young men spirited away by the bird-doggers.

• • •

You've heard often about men who retire and shortly thereafter die.

Such cases have led to a lot of generalizations about the effects of retirement, all of which may be unfounded, according to new research among more than 100 retired executives and other sample groups.

The research, conducted by the University of Michigan's Division of Gerontology, shows that retirement does not generally result in major physical and mental decline or early death. In fact, the study discloses, early retirement actually may conserve health and extend life.

Dr. Wilma Donahue, who directed the study, says members of the executive group showed no ill effects—physically or mentally—as the result of retirement, although some tensions were apparent in the transition period immediately following departure from the job.

• • •

The Great White Father image of the company is on the way out, and business personnel policies are due for radical changes in the turbulent years ahead.

That's the forecast of Dr. O. A. Ohmann, director of employe relations for the Standard Oil Company (Ohio).

Taking a long, somewhat chilling, look at the remainder of the 1960's, Dr. Ohmann concludes that the attitude of the average business toward its employes is "already undergoing drastic change."

Instead of paternalism, he foresees the need for companies to provide greater opportunity for their individual employes to "develop responsible self-reliance and independence, thus contributing to their flexibility to adapt to changing jobs and business conditions."

Item: Standard of Ohio—in its economic forecasts—assumes a relatively slow rate of economic growth until 1965 because of excess plant capacity and reduced capital expenditures, but a surging rate of growth during the last half of the 1960's due to the population bulge, reduced plant expansion from 1957-64, and growing world markets.

• • •

How much change can your business expect in the future?

Dr. Ohmann of Standard Oil (Ohio)—see above—believes some sweeping changes are coming as the result of increasing technological advancement, continuing international crises, increasing government control of business, changing composition of the work force (including progressive reduction in the numbers of production and office workers) and other factors.

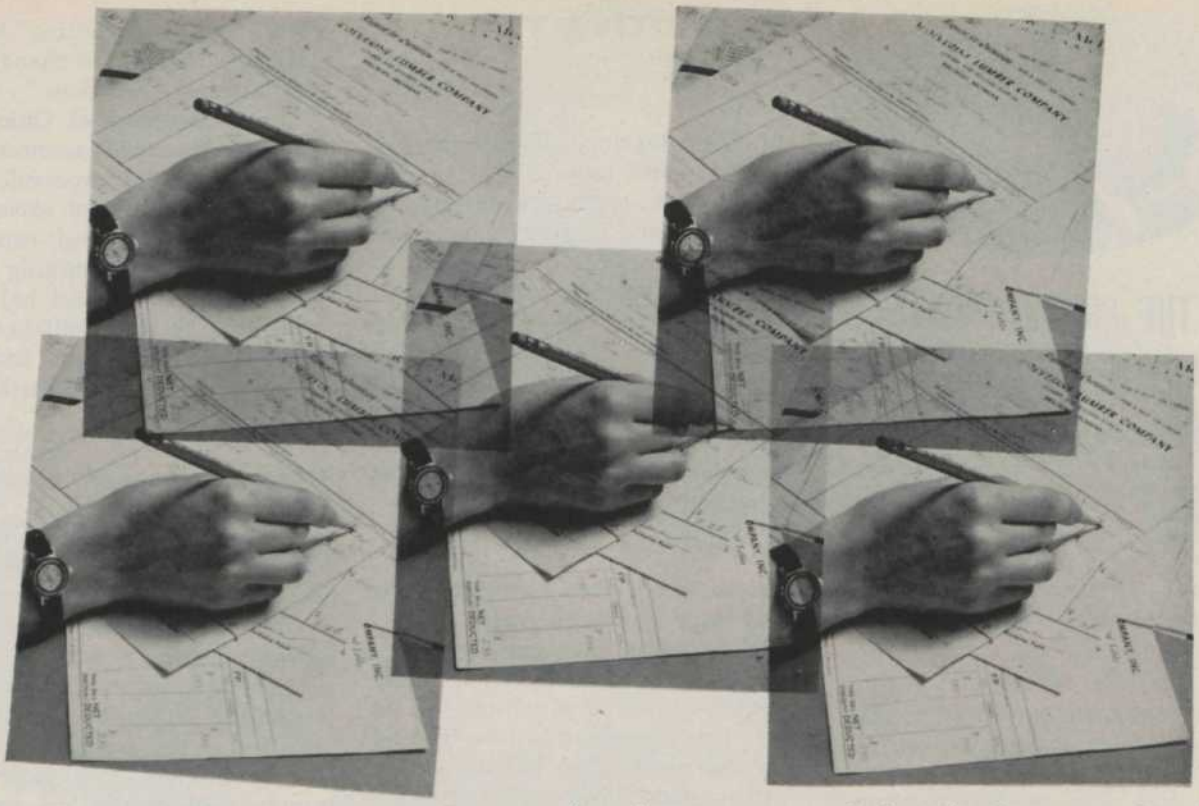
As a result of these forces, management will face the need to spend more for market expansion and penetration, for research and development, for training and upgrading workers to man more technical and specialized jobs.

In addition, job standards will have to be tightened and greater attempts made to eliminate restrictive work rules; more management attention will be required for both defensive and offensive action on the legislative and political fronts; managerial decision-making (because of electronic data processing) will become more centralized, and getting employe acceptance of and adaptation to rapid technological change will be an unrelenting problem.

• • •

Most common means by which U. S. firms attempt to uncover potential conflict-of-interest practices by their executives is through some type of questionnaire, according to a survey by the National Industrial Conference Board.

NICB's survey—conducted among 130 companies—shows more than 25 per cent of the responding firms have developed questionnaires which require employes to declare any personal circumstances that might conflict with company interests.



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Politics, parties add to President's burdens

BY MERRIMAN SMITH

A DAMP SHEEN of perspiration spread over President Kennedy's tanned face as he squinted gravely through the floodlights into unwinking eyes of television cameras encircling his White House office desk. "When I ran for the presidency of the United States," he told his fellow countrymen, "I knew that this country faced serious challenges, but I could not realize, nor could any man realize who does not bear the burdens of this office, how heavy and constant would be those burdens."

It was a heartfelt peroration to the President's midsummer crisis speech calling for increased military manpower and equipment to meet the suddenly renewed Russian threat to Berlin.

That was in July. Since then, the 44-year-old President has felt the burdens of his office increase steadily; at times, it seemed, day by day.

The President is troubled by difficulty in keeping not only his attention, but that of his Administration, of Congress and the public riveted to central issues. He returned not long ago from a week end on Cape Cod, alighting from a helicopter on the White House south lawn to find his military aide, Maj. Gen. Chester Clifton, waiting with a portfolio of new trouble overseas. And perched on a grassy bank beside the President's office was a covey of cuties entered in a beauty contest and steered to the White House by a benevolent member of Congress.

The President looked quite displeased, gave the girls a wide berth and scuttled into his office.

This was exceedingly minor and brief, but still sadly typical of what President Kennedy is up against.

This fall, a steady procession of foreign visitors, many of them heads of newer and smaller countries, cuts frequently and somewhat painfully into presidential time that might be spent more effectively in other ways. This is not to downgrade the importance of distinguished guests, but a dreadfully Nineteenth Century tradition requires that most state visits run a minimum of three days each with three full-scale dinners, two involving the President and one the Secretary of State.

President Kennedy would be much happier if some way could be found to devote more time to business and less to diplomatic banqueting which smacks of the days when kings, having journeyed great distances to other empires, had to rest for several days before undertaking the return trip.

While the President would prefer to concentrate on international problems and pressing domestic affairs this fall, he finds it necessary to do some politicking: from the Pacific Coast to New Jersey, from Oklahoma to New York.

In the honored, if slightly hokey, tradition of incumbent Presidents, much of his domestic travel is being billed as nonpolitical. This does nothing to reduce Republican criticism of his activities, but the nonpolitical label seems to make this sort of sly politicking a more sporting proposition.



WIDE WORLD

President Kennedy takes on graver appearance under heavy weight of responsibility for millions of lives

President Kennedy is hitting the outlands intermittently not only to build Democratic party strength,

---

Merriman Smith is the White House reporter for United Press International.

but for his own sense of direct contact with the people.

His slim election margin a year ago this month still produces night sweats among some of his more stalwart supporters, and they swamp the White House with urgent requests that the President come to their states to dedicate highways and bridges, praise the state university and, in general, tone up party confidence. The brave claims of Democratic party spokesmen to the contrary, the administration record in Congress was short of a smashing success. This, too, is on the President's mind as he shuffles invitations to speak in state after state, city after city.

Since there's a limit to the political territory the President can cover, even with Congress out of town and the world not quite at war, he and his advisers have a plan for sending teams of administration offi-



More government leadership is needed if Americans are to be sold on the necessity of building shelters

cials into key areas this fall to spell out in public seminars the benefits of White House-backed legislation passed at the last session—and some unpassed.

The Chautauqua system of politicking for legislation past and future is relatively untested on a national scale. If the idea catches on, Mr. Kennedy's department heads may have a busy November explaining to town meetings how the depressed areas bill is supposed to work.

• • •

Adjunctive to politics but also traceable to tension over Russia, the President sees a spreading, foggy climate of criticism in his country. Eying next year's congressional elections, Republicans from former President Dwight D. Eisenhower on down have been belting President Kennedy and his associates certainly as hard and, in some cases, harder than during the 1960 campaign.

Hypernationalism is on the rise again, a sure sign of national uneasiness which becomes a self-fueling process as charge and countercharge mount in intensity.

General Eisenhower and the Republican leaders are not attacking the Kennedy record in any sort of alliance, or even agreement with the John Birch Society (which gave the former President some hard lumps much earlier), but a general pattern of criticism does become confusing to Americans who have neither time nor inclination to read and listen carefully.

After a time, ordinarily vocal citizens become gunshy and try to remove themselves from the political or national arena, leaving the squabbling to more prominent combatants. To some, this is disturbing.

The White House, looking at its daily torrents of mail and the jammed editorial columns, senses no shortage of advice, but much of the public response reflects worry rather than a hard-nosed sense of direction.

• • •

Take the matter of fallout shelters. The government says they're needed. With each new installment of the cold war, a few more people are convinced and set about converting their basements into havens from radioactivity. Many more Americans, however, are far from certain that they need to call in a contractor to brick up part of the cellar.

If the government really wants these home shelters built in mass, then Washington must be a whale of a lot more convincing than it has been.

In this nervous November, there is wide and natural curiosity about how President Kennedy is standing up under what he calls his "heavy and constant" burdens.

The answer depends to some extent on where one stands politically. Some theoretically detached observers think Mr. Kennedy feels and shows the weight of his job.

His friends picture him as bouncy and attacking his problems with wisdom and verve. His opponents snipe about his running off constantly to Newport or Middleburg.

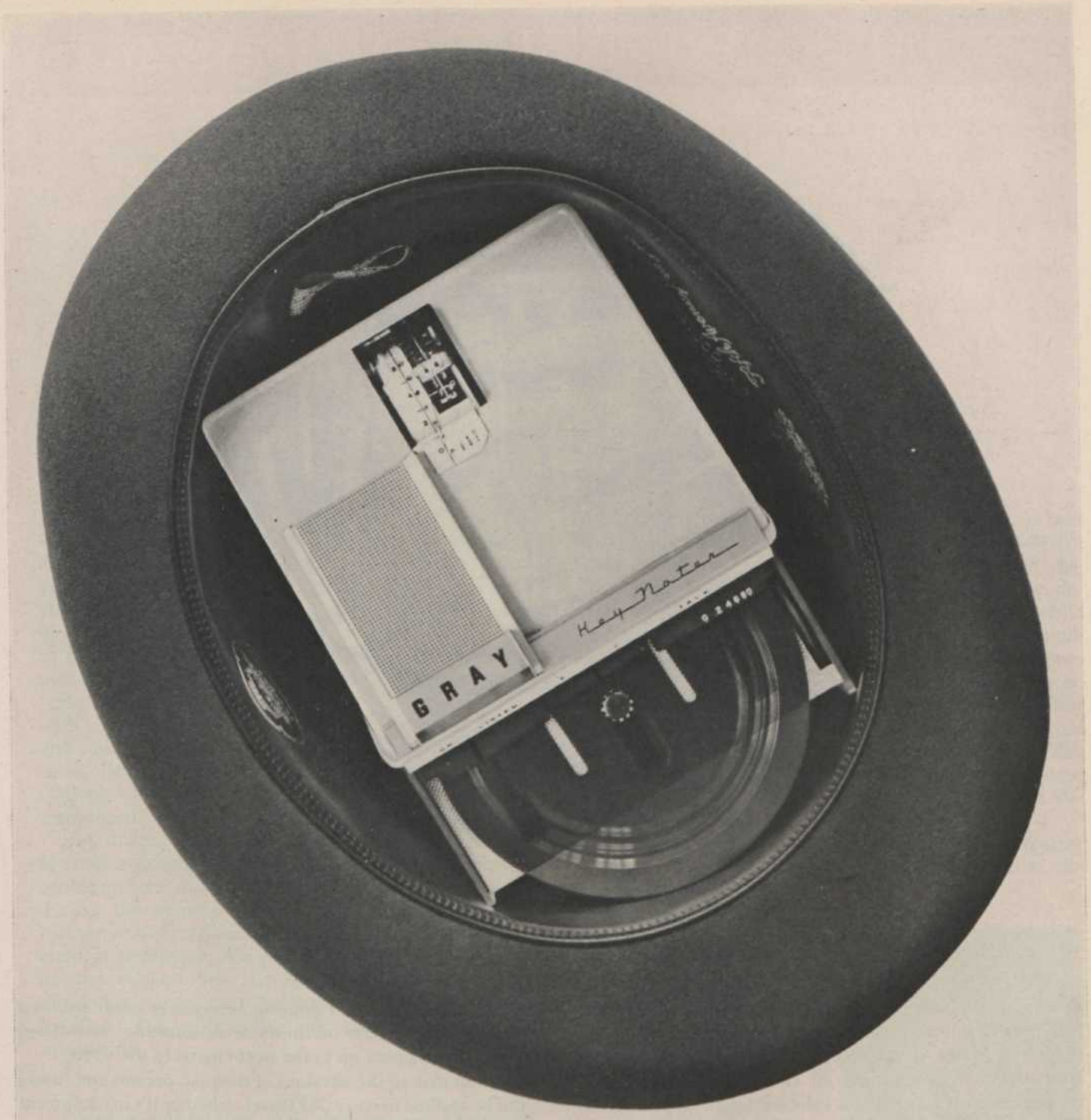
Rowland Evans, Jr., of the New York *Herald Tribune*, a Washington reporter who has known Mr. Kennedy intimately for years, says "he is pretty much the same man" who campaigned for the presidency last fall although "easy access to people has been severely narrowed."

President Kennedy gives the picture of knowing he's in a fight, a terrible brawl with millions of lives depending in great measure on how he conducts himself. This would tend to make any man graver, grayer, a little slower to laugh, more contemplative and certainly more irritated by what he regards as nonessentials.

• • •

This may be hard to fit with his week-end attendance at Cape Cod or some other haven, but public understanding might he helped by realizing that the President still is a family man; unless there are major considerations to the contrary, he intends to spend Saturday and Sunday with his wife and two children outside the White House.

And regardless of locale, there are Saturdays and Sundays when John F. Kennedy can allot only brief periods to his family. Often, it is on the week ends that he catches up with his reading, telephoning and contemplation of a world that makes the presidency less golden than it seemed a year ago this month.



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States guard power to elect President

BY FELIX MORLEY

THE FIRST SESSION of the present Congress convened on the morrow of one of the closest presidential elections in American history. Until the electoral vote was cast, last Dec. 10, it could not be said with absolute certainty just what had been decided a month earlier. There was even the possibility that, as has happened twice, the choice would have to be made by the House of Representatives.

So it is not surprising that the Congress opened with a spate of bills to rationalize the present illogical and undependable procedure. Not counting duplicates, 34 separate bills for reform of the Electoral College, some with multiple sponsorship, were introduced.

Yet, during the session recently adjourned, not one of these reached the floor of either House. A Senate subcommittee did hold hearings on the subject and during the coming session there will certainly be further consideration. Since a Constitutional Amendment is necessary, however, and since the basic law on the subject has not been changed since 1804, skepticism as to the likelihood of reform is amply justified. The reasons for not expecting action are interesting.

• • •

Popular satisfaction with the present system is certainly not one of them. The fact that no citizen can vote directly for a President is much criticized and realization that the vote of the people is inconclusive is distasteful. Only a small number, however, seem to be aware that under the present system the country might be left for some weeks without any President, and that the political trend is making this catastrophic possibility more likely.

When the Constitution was being written only one delegate, James Wilson of Pennsylvania, advocated election of the President by popular vote. The prevalent opinion was expressed by George Mason (Virginia) when he said this would be like referring "a trial of colors to a blind man." In the drafting, the system first favored was election of the President by Congress, which would have given us a governmental system more similar to the British. This plan was discarded because of the desire to keep the legislative and the executive powers wholly separate and distinct. The Electoral College plan was a substitute, designed to maintain the separation of power while establishing indirect election of the President through a state-based organization. In fact, the college was designed as a second Congress whose sole purpose and function would be to make this election. That is why each state has an electoral vote exactly equal to its representation in both House and Senate. The idea was that each congressional district would choose its own elector, with the two corresponding to the two senators chosen, like them, at large.

Nobody on the federal payroll could be an elector (which is still true) and it was expected that the voters would choose electors at least as distinguished as their congressional spokesmen. Indeed, the organization was called a "college" to emphasize the scholarly detachment expected of its members. And since this college would dissolve immediately after voting the President in, his operative independ-



With 45 per cent of New York's popular vote in 1948, Governor Dewey won all the state's 47 electoral votes

ence would not be infringed. What upset this ingenious plan was simply the delay of several important states in ratifying the Constitution. It did not become operative until June 21, 1788, which left little time if the President and the first Congress were to be chosen that autumn. Indeed it was difficult enough for the new constituencies to select their congressional candidates, let alone presidential electors. So the electors were for the most part merely appointed by the state legislatures, as the Constitution permitted and still permits.

This meant that the electors were from the beginning subject to the dominant political group in each state, instead of being the detached philosophers who were anticipated. And as political parties developed it became customary for the party organization to name its slate of electors on a state-wide general ticket, as a recognition for loyal but undistinguished party workers who would vote automatically for the nominee. That is the current arrangement and it will not be easy to change.

• • •

From the viewpoint of the professional politician the great advantage of the general ticket is that it permits capture of the entire electoral vote of a state on a virtually even division of the popular vote. This makes it both economical and efficient to concentrate election effort and expenditure in a few key districts, where a relatively small number of voters can swing the balance for the entire state. These are the easily organized city wards, where the opportunities for corrupt election practices are as numerous as the incentive for them is potent.

From the viewpoint of democratic principles this winner-takes-all procedure certainly produces startling results. In New York State in 1948, for instance, the Republicans and Democrats ran neck and neck, the former polling 45 per cent and the latter 44 per cent of the popular vote. Electors pledged to Henry Wallace and other minor candidates obtained the other 11 per cent. Because of his trifling plurality—not even a majority—Governor Dewey received all of New York's 47 electoral votes, as the number was then. Although New York was then in effect voting unanimously for a Republican President, the same ballots of the same voters on the same day sent more Democrats than Republicans to Congress from that state.

Another omen in 1948 was the defection of four Dixiecrat southern states which together gave 38 electoral votes to Governor Thurmond, to which was added one from a maverick elector in Tennessee. Although President Truman survived these difficulties, a small augmentation would have deprived him of a majority of the electoral vote and thus thrown the election into the House. It is not surprising, therefore, to find this former President now a leading advocate of electoral reform.

The 1960 election brought still another argument for a more reasonable system. In Mississippi all eight Democratic electors, and in Alabama six out of 11, were chosen unpledged and eventually voted for Sen. Harry Byrd, who was not even a candidate. So did one of the Democratic electors in Oklahoma, thus giving Mr. Byrd as many electoral votes for President as he would have received by winning the whole state of Missouri.

These illustrations show that, in addition to being utterly undemocratic, the winner-takes-all system lacks even the virtue of dependability. Whenever there is a sharp cleavage within either of the two major parties it will tend to break down. At least theoretically the present system permits the election of a President who has never been nominated for that office.

• • •

The winner-takes-all system would be terminated by every reform bill now under consideration. That is the one point they have in common. All the proposals, however, fall into one or another of three distinct categories:

1. *Direct popular election*, which would completely abolish the Electoral College and elect the President by a plurality of the popular vote as cast throughout the nation as a whole. This would make state-directed party organization almost valueless. Since a vote in Alaska would count as much as one in New York, the effort to capture votes would naturally come to be directed from outside any state, meaning from Washington. The local political leader would soon lose all power and prestige.

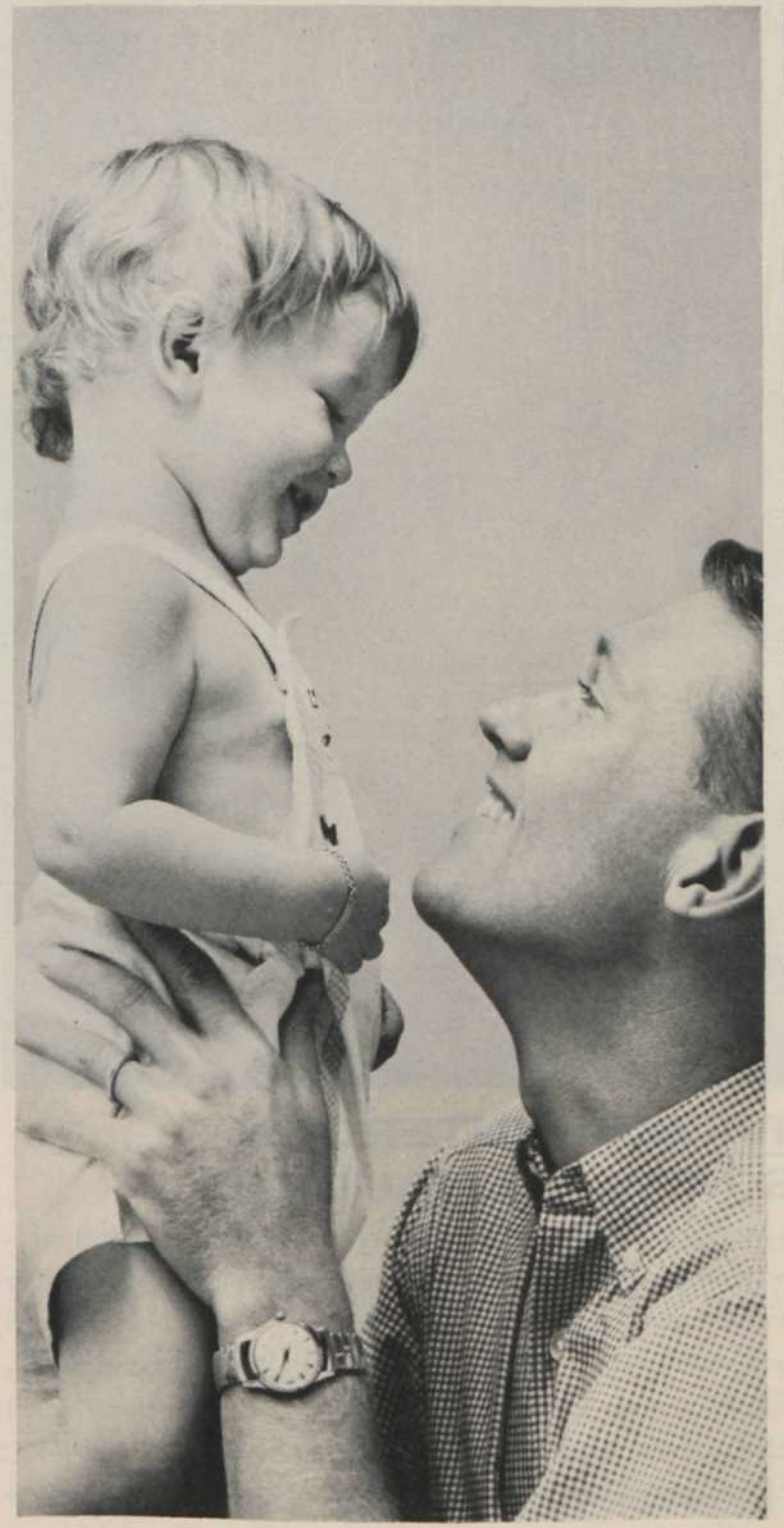
2. *Proportional election*, which would abolish electors as such, but tabulate the existing electoral vote to three decimal places in accordance with the popular vote. Under this plan Illinois, for instance, would not have given its 27 electoral votes to Sen. Kennedy in the last election. He would have received from Illinois 13.493 votes, as against 13.445 for Mr. Nixon and 0.062 for other candidates. A major criticism of this plan is that it would undoubtedly encourage a multiplicity of political parties.

3. *District election*, which would maintain the Electoral College but on a district instead of a state-wide general ticket. Each congressional constituency would have its own elector, pledged to go as the district goes, with the at-large electors following the vote of the state as a whole. This is the plan most favored by students of the subject, not less so because it conforms with the original Constitutional intent.

While the district plan would also lessen the power of the state political leaders, it would augment that of county and local organizations. The major objective would be the winning of a congressional district and only to a lesser extent that of the state as a whole. It is therefore the least objectionable to the professional politicians, as well as being most satisfactory to those who believe in the principles of federal government.

Even so this plan will need strong popular indorsement if it is to be approved during the coming session of Congress.

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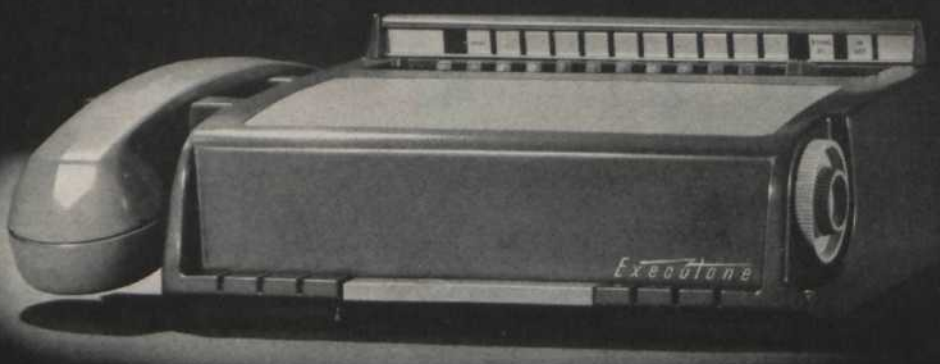
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Our existence as a free and independent nation, founded by men and women to escape tyranny, is challenged by the most powerful, the most brutal tyranny the world ever has seen.

The communist measures his power in weapons, in megatons of disaster.

We, too, can destroy. We have the bomb. We invented it. But let us not measure our power in megatons. Our existence as a free nation depends not on our weapons, but on the qualities of our people.

We have in our heritage the strengths and qualities of men and women experienced in defying tyranny, who on their own initiative conquered a continent and built a nation that has brought more good to more people than any other society so far conceived.

In these qualities we will find the power to win the cold war—or the hot.

In a series of articles beginning on the next page nationally prominent men remind us of the need to reaffirm these

QUALITIES OF VICTORY



QUALITIES OF VICTORY

PART 1

COURAGE

BY CAPT. EDWARD V. RICKENBACKER

COURAGE—the watchword of our forefathers—is a quality of mind which enables one to meet danger and difficulties with firmness, valor and boldness. Courage, combined with opportunity and the incentive to forge ahead, has made America what it is today.

Never in the history of this country has courage been needed more than at present.

We are on the brink of a severe crisis in international affairs caused principally by the loss of the pioneering spirit and daring that made America great.

The communists are making increasing inroads in Latin America. One billion humans are slaves to the all-powerful states of Khrushchev and Mao Tse-tung. Countries which believe in individual dignity are under siege throughout the world. Nuclear arms point menacingly at our shores.

But, we must not cringe before the communist threat, talking peace when there is no peace. We must not be afraid, for a nation that is afraid is doomed.

Life is sweet. But life cannot be valued above principle. We cannot be soft and appeasing. The world will not respect our rights unless we show that we mean to defend those rights.

Courage is common in times of strife. When people are in abject need, their courage comes to the fore and, with the help of God, they conquer their problems.

We in America are in that position today. But we are gradually losing the cold war through our own actions of undermining the economy of this country.

One of the basic principles of our forefathers and one which has made America strong was the obligation of everyone to take care of himself.

But, today, too many people are so complacent that they *(continued on page 52)*

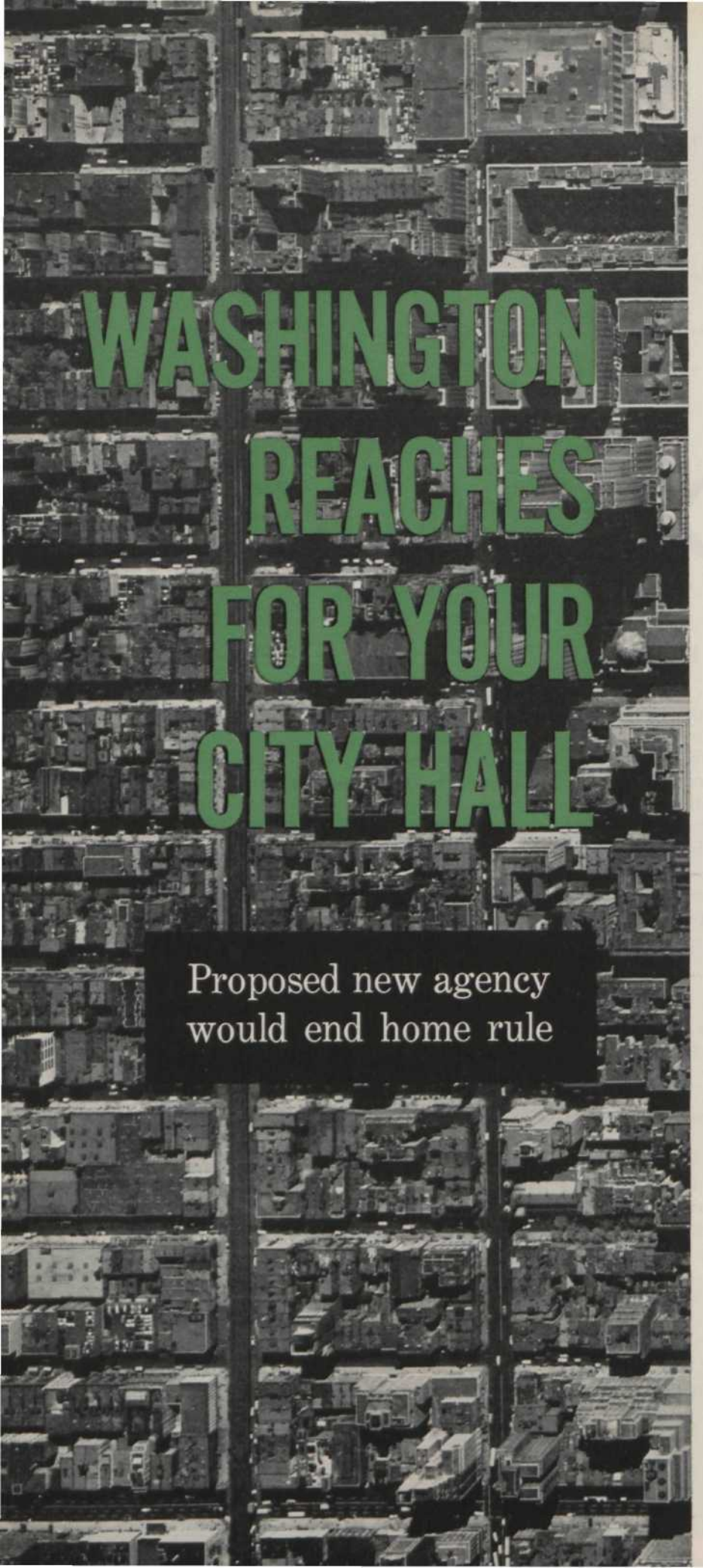
As an auto racing champion, a World War I combat pilot, a Congressional Medal of Honor winner, and a transportation industry pioneer, Capt. EDWARD VERNON (EDDIE) RICKENBACKER has been a symbol of American courage.

He has narrowly escaped death on many occasions, including a harrowing three weeks on a rubber raft after a crash in the Pacific while on a special mission during World War II. And he has seen a number of failures and successes in his long business career.

Now chairman of the board of Eastern Air Lines, Inc., Capt. Rickenbacker is still a pioneer and a fighter for his beliefs.

In this article for NATION'S BUSINESS, he tells how we can strengthen our national courage.

PHOTO: COVELLO, BLACK STAR



WASHINGTON REACHES FOR YOUR CITY HALL

Proposed new agency would end home rule

CONTROL of city governments could move to Washington if Congress votes next year to establish a Department of Urban Affairs and Housing.

It's likely your city would then be less responsive to your individual needs. You would lose personal contact with the level of government which affects you most.

The new cabinet-level agency is recommended by the Kennedy Administration, strongly backed by city officials and, among others, the AFL-CIO.

By establishing a direct line of communication from the mayor's office to the center of the federal government, it would soon become the most powerful and expensive cabinet post. The authority of governors, state legislatures and other local levels of government would be demolished.

Although the backers of the proposed department put most of their stress publicly on the need for federal "coordination," "planning," and "research," they have in recent years been in the forefront of every fight to enlarge present federal welfare programs—housing, urban renewal, community facilities, water treatment plants, airports, schools.

They've battled vigorously to get Uncle Sam deeply involved in dozens of new areas: helping depressed communities, combating juvenile delinquency, expanding public health facilities, modernizing and renovating hospitals, subsidizing commuter facilities, acquiring park lands. They've suggested the federal government take on such other chores as helping cities to relocate industry, planning public works, fire prevention, even snow removal.

Opponents of the new department put its real purpose bluntly: to pressure within the Administration, with Congress, and with the public for big new spending programs the cities have long wanted.

Most expensive department

"To say that the bill merely conveys status to the present housing agency without transferring any functions in or out of the agency," say five Republican members of the House Government Operations Committee, "only describes the first step of the long-range strategy —a strategy apparently designed to bring the solution of the day-to-day problems of community life under

the direction of centralized government."

Declares a minority report by two Southern Democrats and two Republicans on the Senate Government Operations Committee: "A department of government which will carry out the functions envisioned by the supporters of (this) plan will be the most powerful cabinet post—and it will be the most expensive."

The fight for the Department of Urban Affairs has been gathering momentum in recent years. President Eisenhower resisted it, warning that "nothing is really solved, and ruinous tendencies are set in motion, by yielding to the deceptive bait of the easy federal tax dollar."

But the 1960 Democratic platform and Democratic Presidential candidate John F. Kennedy made the Department of Urban Affairs a key campaign promise.

Shortly after Mr. Kennedy's election, some of his advisers started having second thoughts on the idea, and wished the Administration weren't committed quite so firmly, but it was too late—particularly in view of the way the big-city leaders had delivered votes. The Administration last spring recommended the plan, the two Government Operations Committees held hearings, and both approved the measure. It is ready for floor action early next year in both Senate and House.

The proposed bill would set up a new "Department of Urban Affairs and Housing." It would immediately absorb the federal Housing and Home Finance Agency, including the Public Housing Administration, Federal Housing Administration, Urban Renewal Administration, Community Facilities Administration, and Federal National Mortgage Association.

In addition to administering these existing housing programs, the new department would be directed to study and advise the President on new problems in housing and urban development, provide technical assistance to states and cities, encourage comprehensive state and local planning on community development, and coordinate federal, state, and local programs for urban aid.

The bill has been caught in a slight cross fire because all indications are that President Kennedy intends to appoint as Secretary of the new department his present Administrator of the Housing and Home Finance Agency, Robert Weaver. Mr. Weaver would thus become the first Negro cabinet member, and this prospect has obliged some southerners who might ordinarily have supported the new department to oppose it. At the same time this prospect has brought support for the bill from some Republicans who might otherwise have opposed the department but now fear being placed in an anti-civil-rights position. Unless its opponents rally between now and the time the bill will be voted on in early 1962, the odds strongly favor its enactment.

Establishment of the new department would climax a trend that has been growing steadily in recent years—a trend of cities turning to Washington for financial help.

City officials claim this is the natural result of the nation's increasing urbanization. Today, they point out, some 70 per cent of all Americans live in about 200 metropolitan areas, and practically all future U. S. population growth is expected to be in urban areas. These new metropolitan areas, they continue, expand rapidly across city, county and state lines. Their needs for new and enlarged local services outstrip the availability of local taxes, the argument goes.

So they turn to the states, and what do they find? According to city officials, they find a legislature whose membership was set back in the days when the states were predominantly rural rather than urban areas.

Even where the states are sympathetic, the cities say, they have run out of resources or lack the power to do anything for metropolitan areas that cut across state boundaries.

So the answer is to turn to the federal government.

Sponsors of the bill suggest that all they want for the cities is the same sort of representation other groups already get. They say the Agriculture Department represents the farmers, the Commerce Department represents business, the Labor Department represents workers, but no one represents the city dwellers.

Over and over they promise that the only purpose is to coordinate

(continued on page 44)

Robert C. Weaver, now federal housing chief, could head new agency



Sen. Joseph S. Clark, Pennsylvania Democrat, is the bill's chief backer



Sen. Karl E. Mundt, Republican from South Dakota, opposes the plan



PHOTOS: UPI

EMERGENCY CONTROLS: WHAT TO EXPECT



PHOTO: CARL PURCELL

A NATION'S BUSINESS INTERVIEW WITH **EDWARD F. PHELPS, JR.,**
DIRECTOR OF GOVERNMENT PLANNING FOR ECONOMIC STABILIZATION

AS WORLD TENSIONS rise, businessmen want to know if, when, and how the federal government will impose wage, price and other direct economic controls.

To get some answers, the editors of NATION'S BUSINESS asked the man who knows most about what the government is doing and planning. He is Edward F. Phelps, Jr., deputy director for economic stabilization in the new Office of Emergency Planning (until recently a part of the Office of Civil and Defense Mobilization).

Mr. Phelps, a former food industry executive, has been in charge of emergency economic stabilization planning for almost seven years. In previous government service he was director of food price control for the Office of Price Administration during World War II and assistant director of the Office of Price Stabilization during the Korean emergency. Between government assignments, Mr. Phelps was associated with a wholesale grocers association and was an executive of a Texas food manufacturing and wholesaling concern. He is from West Hartford, Conn., where his family was well known in wholesale food distribution.

In this exclusive interview Mr. Phelps tells you the kinds and timing of controls being planned for different kinds of emergencies, what authority the President has and what he may ask from Congress, and what you, as well as local communities and states, should be doing to prepare for what may come.

Mr. Phelps, have the Berlin and other international crises brought us closer to economic controls?

I don't know that they have brought us closer, but interest in emergency economic controls has reached a new high. Business people, business organizations, the press, and many others are wondering how well the government is

prepared to deal with the economic consequences which these crises might cause.

How well is the government prepared?

The government has published plans for dealing with the possible economic consequences of a limited war mobilization. In general the United States would use the same emergency economic measures it used during World War II and the Korean war.

The government has also developed rather detailed plans for dealing with the economic consequences of nuclear attack. Here the problem is new and unprecedented.

What about international tensions short of war?

These periodic trips to the brink may represent a new kind of emergency economic problem for us.

There is the risk that, at some point during a period of increasing international tension, the economic consequences could be similar to those which have resulted from military action in the past.

After a period of accelerated military build-up there is at least the possibility that the country could face psychological inflation.

What do you mean by psychological inflation?

It's inflation set in motion when people, organizations and markets suddenly decide that it is wise to accumulate inventories, to beat the government to the punch, to jockey for position, perhaps to speculate, or to do the things which an uncertain environment may seem to support.

It may be that individual human motivations and responses cannot control this kind of national reaction, but it is at least theoretically within our power. The alternative puts the government in the position of having to do something in the national interest whether it wants to or not. The government of the United States regards direct controls as a last alternative and one to be avoided if there is any choice.

On the other hand, no President or responsible government could risk inaction if spontaneous forces produce a result not in the national interest, whether it is based on psychology or economic fact.

Are we in danger of reaching that point?

One would have to foresee the outcome of the Berlin situation to be precise. I will say only that, if the Berlin situation worsens materially and if people, organizations, and markets suddenly decide that these events mean serious trouble, psychological inflation would be possible.

Up to this point the economy has absorbed the impact of the Berlin situation with substantial stability.

Have we ever had inflation controls in peacetime?

Not in the sense that you ask the question. The Federal Reserve system has rather broad authority to act on the monetary and credit side, which could be a form of anti-inflation action. These indirect controls would be used in time of emergency but would be supplemented by other indirect and direct controls.

What do direct controls include?

Price, wage, salary and rent controls. Consumer rationing is ordinarily included, too.

And indirect controls?

In that category are emergency tax measures, monetary and credit measures, and savings programs.

Are we prepared today to invoke stabilization controls?

The President does not now have authority to impose direct controls on prices, wages, salaries, or rents. He does have authority to ration consumer goods; but this is not really an issue. Likewise the President cannot increase or adjust the tax structure or tax rates on his own motion.

Finally, the President has no authority to impose controls on consumer credit or real estate credit.

All these would require action by Congress.

How much preplanning has been done?

The government has a reservoir of know-how, of people, of agreed-upon policies and objectives. Many arrangements have been made for an emergency stabilization operation to be created and organized if the situation required it. In my judgment, if controls were required, the President would unquestionably be able to obtain necessary authority from Congress with a minimum of delay.

What are these agreed-upon policies?

Existing national policy is that the whole arsenal of indirect and direct emergency economic measures would be required in case of limited war.

Response to the probable economic consequences would be undertaken early in the mobilization rather than after long debate and discussion. This is a lesson learned from the Korean experience, when the government was late in dealing with a sharp psychological inflation.

Beyond this, our emergency response would be much like that set in motion during World War II and the Korean war.

No changes are contemplated, then, from our previous emergency economic controls?

With respect to limited war, no basic changes are probable. Actually, relatively few emergency in-

(continued on page 94)

WHY CUSTOMERS BUY

This analysis of the U.S. consumer clears away some misunderstandings which could be hurting your sales

THIS YEAR—and for at least two years to come—U. S. industry will pour some $4 billion into developing new products which customers won't buy.

This, at least, has been the pattern over the past two years. Four out of five new products have failed in the market place.

The cause seems to lie in the erratic and seemingly irrational behavior of the American consumer. Despite vast market research and planning, it is increasingly difficult to predict what people will buy.

Periodically, the consumer shifts preferences in a totally unexpected fashion. Witness the recent swing to compact cars.

Actually, the consumer is not behaving irrationally. The fact is that the customer of the 1960's is different from the customer in the carefree postwar boom. Even in the postwar days that picture was not entirely accurate. Painted in bold, unsubtle colors, it sufficed for a market hungry for goods.

With that hunger satisfied, a more precise analysis of the complex consumer is needed. It should cover five broad subjects:

- Consumer taste.
- Consumers' view of big business.
- Regional differences.
- Self-service.
- Sales appeal.

These are the areas where decisions based on prejudice instead of knowledge can cause a surprising number of marketing mistakes.

Consumer taste

Little has been done to develop a sound theory of the underlying factors that cause and determine taste preferences.

Marketing planners, as a rule, are interested not so much in discovering the basic roots that influence the average buyer's aesthetic decisions as in finding out consumer reactions toward this or that product, package design, or color combination.

These practical findings are often based on assumptions about mass taste. They deny the existence of any particular intrinsic style or taste preferences among the class groups; they presume that buying decisions are made on the basis of fashion, following the Joneses of each status group. It is generally presumed that "mass taste" is bad, while "class taste" is good.

To some extent these ideas are valid. Fashion does play a significant role in determining taste preferences. Keeping up with the Joneses is and always has been a big factor in buying decisions.

But these half-truths are of little help in predicting whether a new product will appeal to the consumer. The assumption that what appealed to the consumer in the past will appeal to him today not only prevents real progress in product design; it also results in a "taste lag" in the market.

Recent studies have established a sounder basis on which to judge consumer reactions. They have disclosed that the different preferences of differing socioeconomic groups are based on certain specific relationships toward design and aesthetics.

A panel of housewives from each of three major groups (upper middle, lower middle and upper lower class) were shown different proposed designs for items ranging from beer cans to air conditioners, table lamps and cookie packages.

Three types of designs were tested. One was severely controlled in form and pattern; the second was spontaneous, free-wheeling, but coarse; the third was a sentimental style with sweetness and light the predominant theme.

Upper middle-class individuals chose the first type by large majorities. Lower middle and some upper lower-class consumers, when shown only the first two types, vacillated between them, depending on the type of item displayed. But when the sentimental design was added as a third alternative, all of the lower middles and a good portion of the upper lower class rated it their first choice.

Now the consumer's behavior falls into a more rational pattern. The middle-class predilection for sentimentality, for example, accounts for the popularity of Early American furniture within this group, while the upper classes cling to traditional or highly stylized modern.

This, too, is the reason for the popularity of nostalgic, sentimental package designs for food products; resistance to the efficiency kitchen among middle-class housewives, coolness toward the chrome and decor of large automobiles among upper status classes.

Consumers' view of big business

American industry has concentrated on building its image as informal, intimate; above all, friendly. The consumer, it is presumed, is basically hostile toward big business.

The friendly approach is personified in the public relations programs of many service industries. In many banks, for instance, glass has replaced the imposing marble structure of old, loans are made easy to obtain, checks are cashed quickly for drive-in customers.

But a recent study of the over-all image of banking in America showed

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HOW WELL DO YOU UNDERSTAND BUYERS?

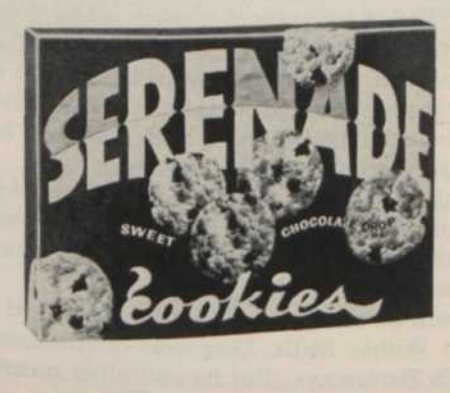
Experiments and studies by market researchers have shown that people in the upper middle, lower middle and upper lower social groups do not respond alike to product design and appeal. Hence, it is useful to know and to be able to recognize how the responses of people in these several groups differ. The test below, actually used by one firm of design and marketing consultants to measure variations in taste and preference, will give you some valuable insights into the general preferences of consumers in the major social groups.



In a test of packaging preferences, researchers found upper middle panelists preferred this clean, controlled design over other simulated packages which were submitted for their consideration



Image of a little girl on this cookie box won votes of purchasers representing lower middle class on test panel. It was found that sentimentality rated high with consumers from the lower middle group



Panelists from upper lower group chose this package. Experts say choice shows lack of restrained taste in this group. In some cases individuals did not go along with the preference of their group

When to look for TAX REFORM

Three factors indicate that progress is likely

LOWER INCOME TAX RATES and faster write-offs for your plant and equipment.

These twin tax goals of business now seem increasingly possible, barring war. Treasury Secretary Douglas Dillon promises quicker depreciation soon. For lower rates, though, you may have to give up some tax breaks you now get.

A combination of decisions being made at the top levels of government will influence the outlook for tax reform. They involve:

- Congressional attitude and timing.
- Growing national needs.
- Executive actions.

The Kennedy Administration will push hard early next year to enact some restrictive tax provisions that were left hanging when Congress adjourned this year. But the lawmakers softened the Administration's original proposals considerably and the final bill Congress passes next year may be cut to the bone.

Mr. Kennedy apparently has now decided against asking for higher taxes to balance the budget for the next fiscal year though a sizable deficit is in prospect. And there seems growing determination, particularly in Congress, to cut nondefense spending rather than add any more to the tax burden.

Tax reform has long been a goal of theorists, politicians and taxpayers. Nobody as yet has been able to agree exactly on what changes will make a tax system equitable, adequate and easy to administer. But there is almost universal accord that tax reform must involve a giant trading operation, in which many taxpayers must give up special deductions, credits or other preferential treatment in exchange for lower income tax rates.

There is wide agreement, too, within the executive and legislative branches that the President must take the lead in pushing for reform and that the public as well as Congress must be enthusiastic about it. Not all these conditions have existed in the recent past.

As lawmakers have sought to relieve various taxpayers from the high rates in force during the past generation, the base of taxable income has narrowed.

Special provisions dealing with the taxation of different kinds of income have been branded as loopholes. This has led to distrust of the whole tax system as well as annoyance with its complexity.

Exhaustive congressional studies have bogged down in conflicting taxpayer interests because what seems a loophole to one man seems a divine right to another.

Legislative timing

What Congress did in the tax field this year offered a broad hint as to what will happen next year.

The President last spring called for "urgent and obvious tax adjustments along the road to constructive reform."

These included proposals to grant a tax credit to spur investment in certain kinds of depreciable property, to eliminate tax deferral privileges for certain foreign earnings, to withhold taxes at the source on stock dividend and interest income, and repeal the dividend credit and exclusion now permitted shareholders. The Administration also asked for much tighter rules for expense accounts, repeal of capital gains treatment for proceeds from the sale of certain depreciable property, more taxes on cooperatives and certain financial institutions, and taxpayer account numbers to permit better enforcement.

The only legislation Congress passed provided account numbers for taxpayers. The other proposals were overhauled and left pending before the tax-writing House Ways and Means Committee.

"This will be our first order of business next year," Chairman Wilbur Mills, Democrat of Arkansas, told NATION'S BUSINESS. But he and other members of

the Committee say there is no assurance that any particular part of the proposed legislation will be in the final bill.

Though the Senate would be more inclined to approve the Administration's current tax recommendations than the House, the actions of the Ways and Means Committee and business opposition to so many of the proposals indicate that Congress may favor a kind of reform different from that Mr. Kennedy described as his first step in that direction.

Undoubtedly a tax bill will be passed next session. But members of the Ways and Means Committee are a long way from agreement on exactly what they will endorse.

Rep. John Byrnes of Wisconsin, major Republican tax spokesman and head of the House G. O. P. Policy Committee, sees several changes coming.

The law governing deductions of necessary and ordinary business expenses will be tightened to prohibit abuses, he believes.

He also predicts that new taxes will probably be enacted for cooperatives and mutual insurance companies, that gains from the sale of certain depreciable properties will be taxed as ordinary income rather than at lower capital gains rates, as they are now.

He also believes the tax deferral privileges of foreign subsidiaries may be restricted since foreign income in some cases gets a break over domestic earnings.

But these are not the most controversial provisions now pending, although some members of Congress oppose changes in treatment of foreign income and business expenses. Rep. Thomas Curtis of Missouri, another Republican on the Ways and Means Committee, contends that better enforcement rather than new laws is the solution.

The more controversial provisions to be wrangled over next year involve a tax credit for investment on new or modernized equipment and withholding taxes on dividends and interest payments.

The Administration first asked Congress to pass a tax credit of 15 *(continued on page 90)*



FRED J. MAROON

"Tax changes will be our first order of business."—Chairman Wilbur Mills of House Ways and Means Committee

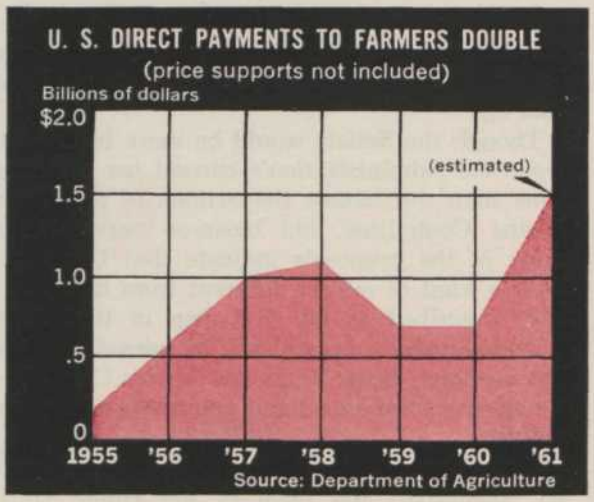


"Depreciation changes could be part of tax reform."—Assistant Secretary of the Treasury Stanley Surrey

An authoritative report by the staff of the

HOW'S BUSINESS?

today's outlook



AGRICULTURE

Total farm output (crops and livestock) for 1961 apparently will nearly equal last year's record and the nation's farmers will realize about $1 billion more income.

Production of livestock, dairy and poultry products promises to exceed 1960 by about five per cent, according to the U. S. Department of Agriculture.

Final estimates may boost total crop output to within two or three per cent of the record reached in 1958 and 1960, despite a 20-million-acre cut in feed grain acreage. Unprecedented yields of corn, grain sorghums and soybeans resulted from favorable weather, more use of fertilizer, heavier seeding and retiring the less productive land under the feed-grain program.

Estimates are that net farm income may reach $12.7 billion for 1961. The Department of Agriculture expects government payments to producers to be $1.5 billion this year—more than double the 1960 level. Most of the increase is for incentive payments to participants in the feed-grain program.

CONSTRUCTION

Look for new and major efforts to improve and modernize city and county building codes.

Competition among cities—and among cities and their suburbs—for new industries, business offices, and commercial centers is generating a fresh understanding that out-of-date codes can stymie building progress while modern codes can provide the basis for construction efficiencies and economics.

The task of code modernization has also become considerably less complex. Four major model codes—the Basic Building Code, the National Code, the Southern Standard Building Code, and the Uniform Building Code—have been developed to meet the needs of different communities and to provide for the continuing modernization of codes as construction technology progresses.

CREDIT & FINANCE

Drastic changes in the Federal Reserve system are proposed in a bill introduced in the closing days of Congress.

Offered by Sen. Joseph Clark, Pennsylvania Democrat, the measure would: 1, Bring all insured banks into the Federal Reserve system; 2, fix term of Board Chairman at four years; 3, eliminate geographical qualifications for governors; 4, limit Board membership to five; 5, make the Board responsible for open-market policy; 6, end ownership of capital stock for Federal Reserve membership and substitute a nonearning stock.

These were among the suggestions made in the recent report by the Commission on Money and Credit.

The bill is said to have been written mainly to get some of the CMC recommendations up for serious discussion. It won only one cosponsor—Senator Alexander Wiley, Wisconsin Republican.

DISTRIBUTION

The distributive trades are feeling the effects of two changes in consumption patterns.

First, people have been spending a larger share of their incomes on services such as medical care, home repairs, laundry and cleaning, bus fares, rent, electricity, beauty culture, and recreation.

This accounts mainly for the smaller proportion of personal income that is spent today at retail counters. The U. S. Department of Commerce reported that the "ratio of retail sales to personal income (before taxes) has shown an irregular but generally declining tendency from more than 58 per cent in 1954 to 54.5 per cent last year and 52 per cent this summer."

Second, according to the U. S. Department of Agriculture, spending for food has not increased in proportion to the rise in personal income. From 1947 to 1960 consumers' after-tax income more than doubled, while the prices of food products increased only 25 per cent. Consequently, spending for food accounted for only 21 per cent of consumer expenditures in 1960 compared with 27 per cent in 1947.

FOREIGN TRADE

An expanded export guaranty program of the Export-Import Bank of Washington is almost completed.

The program was authorized in legislation which clarified provisions of the Export-Import Act of 1945 relating to insuring of exports.

The new law permits the bank to insure, coinsure, and reinsure against risks arising in connection with export transactions.

The bank is expected to play an increasing role in export promotion efforts, especially in facilities offered for financing consumer goods and for aiding small and medium-sized exporting concerns.

One part of the new program involves guarantees to financial institutions on medium-term sales (one to five years), which should permit the commercial banks to handle a larger volume of financing on a largely nonrecourse basis.

The other part involves a proposed foreign credit insurance association, formed by insurance companies to cover the political and credit risk on sales of consumer goods and sales of capital goods up to five years.

GOVERNMENT SPENDING

President Kennedy's veto of a bill to raise the pay of many postal workers indicates that he intends to drive for early passage of the postage rate increase. In his veto message, the President said:

"Congress failed to provide—through enactment of the postal rate increases recommended by this Administration and its predecessor—the revenues necessary to cover the current postal deficit, much less a deficit of even greater magnitude. Without new revenues this bill would increase the postal deficit to more than $800 million."

The President's action came as a surprise, if not a shock, to government employe union leaders who already are focusing their sights on another general pay raise in the coming election year. It was generally believed that enactment of legislation adjusting postal pay rates would pave the way for another general pay raise similar to those in 1958 and 1960.

While the President indicated that civil service and postal pay structures need revision, there is some doubt that he would approve any across-the-board raise. This would further unbalance the budget, even if coupled with proposed increases in postage rates.

LABOR

The legislative push to restrict union monopoly power has begun.

Two bills introduced in the closing days of the first session of the Eighty-seventh Congress would end union immunities from the antitrust laws.

In the House, Rep. Dave Martin, Republican of Nebraska, offered a comprehensive measure aimed at halting industry-wide bargaining, except in certain limited metropolitan areas.

Collective bargaining would be conducted on a local or company-wide basis. The legislation would make industry-wide and national emergency strikes highly improbable.

In the Senate, Sen. John L. McClellan, Arkansas Democrat, introduced a bill limited to the transportation industry. It would thwart the threatened transportation combine of Jimmy Hoffa and Harry Bridges.

The make-up of the present Congress does not promise early enactment of union antitrust legislation. Senator McClellan's bill is not expected to win favor in the Senate Labor Committee. Although Representative Martin's bill by-passed the House Education and Labor Committee and was assigned to the House Judiciary Committee, its immediate legislative future is no brighter.

The bills, however, will provide a talking point for those who advocate an end to the legal double standard now existing for labor and management.

NATURAL RESOURCES

Passage of the Cape Cod National Seashore legislation has established a precedent challenging rights of private land ownership. Interior Secretary Udall praised the Act providing the authority to establish national parks through the purchase of private land. Condemnation may be used.

Being taken at Cape Cod are 26,000 acres, mostly private, with homes, business properties, beaches, forest land, and lakes.

The Interior Department and its National Park Service have many similar proposals before Congress. A partial list includes: Sleeping Bear (Michigan), 77,000 acres; Padre Island (Texas), 200,000 acres; Point Reyes (California), 53,000 acres; Oregon Dunes, 35,000 acres—all national seashores. Ozark Rivers National Monument (Missouri), 113,000 acres; Indiana Dunes, 4,000 acres; Allagash Wilderness (Maine), 200,000 acres.

TAXATION

Major reform of our tax system may be sidetracked next year. A huge deficit is in prospect and higher spending anticipated.

This does not mean that the President's proposals of April 20 will be ignored. For the most part, these recommendations would raise revenue. Only the investment tax credit scheme would result in a revenue loss.

The almost unanimous rebuff of the investment tax credit by businessmen may prompt the Administration to take another look at genuine depreciation reform. The Treasury department is still studying this already overstudied area.

Representatives Herlong and Baker have promised renewed efforts in the next session to win passage of their identical bills which would provide for a five-year gradual reduction of individual and corporate rates, as well as a reduction in the estate and gift taxes. (See also the article on page 40.)

TRANSPORTATION

The Administration plan to solve the common carriers' economic ills will be based on a report to President Kennedy by Secretary of Commerce Hodges. In preparing it, the Secretary invited and received suggestions from all possible sources involved in transportation, covering such points as these:

A program for realistic depreciation of transportation equipment, encouragement of consolidations and mergers in the transportation industries, government preference for common carriers in government traffic, curtailing of government competition with common carriers, and recommendations for congressional action.

Better coordination of government transport activities through the Undersecretary for Transportation has also been suggested.

The report is going to the President early this month.

YOUR CITY HALL

continued from page 35

and help plan. "No new programs would be established by the bill, nor would existing provisions of substantive law be altered," the official Senate report on the bill goes out of its way to proclaim.

"There is considerable research being carried on today," asserts Mayor Richard Daley of Chicago, "but such studies are made in bits and pieces. The results are often not widely publicized, and a federal department could not only develop its own program of essential information but would have channels available to distribute basic research studies to city, county and state officials."

Declares Sen. Joseph Clark, Pennsylvania Democrat and Senate sponsor of the new department: "State or city officials with complaints will have someone to whom to turn. A local official with an inquiry will be able to get one-stop service instead of being bucked around from one federal agency to another."

Not only do the bill's sponsors protest their innocence of new spending aims; they assert it will make things more efficient and even more economical.

Sen. Kenneth Keating, New York Republican, another sponsor, argues: "The creation of a new department to deal with urban problems does not necessarily mean the federal government is going to spend more money. By bringing together under one department a number of separate agencies that now, in many cases, overlap, we may actually be able to realize considerable savings."

But opponents remain skeptical. They point to the past history of new departments, which rapidly become advocates and lobbyists within the government for the groups they represent—the Agriculture Department fighting for bigger farm spending; the Labor Department pushing for more spending for workers; the Department of Health, Education and Welfare constantly supporting enlarged outlays in its areas. Appropriations for the Department of Health, Education and Welfare, the newest cabinet post, have jumped from something under $2 billion in the year ended June 30, 1953, to more than $3.8 billion in the year ended June 30, 1961, while civilian employment in the agency has climbed from some 36,600 workers to almost 63,200.

It's far more than history and normal bureaucratic trends that worry the opponents of the Department of Urban Affairs. They're more concerned over the records of the chief backers of the new department.

The two main sponsors—the American Municipal Association and the U. S. Conference of Mayors—last year asked the Democratic and Republican nominating conventions to adopt urban affairs planks "endorsing the principle of federal grants-in-aid as an appropriate method through which the national government with its broadly based tax resources can fulfill its duties and obligations in helping local governments."

Specifically, the proposed plank called for federal-city cooperation on "urban renewal, highways, mass transit, airports, water supply, air pollution, juvenile delinquency, hospital construction, atomic energy, civil defense, area redevelopment, payments in lieu of taxes, and public works."

In almost every bill considered by Congress this year in the welfare field, these groups fought for enlarged programs. For example, they called for a five-year program of $100 million a year for airport help, with the administrator having far more leeway in the type of projects to be helped. The previous program was $63 million a year. Congress authorized a new program of $75 million a year for three years.

The National Housing Conference urged that $1 billion a year be voted indefinitely for urban renewal; Congress actually voted $2 billion for a three to five year period.

Congress authorized $75 million of aid for commuter facilities and $50

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Next month NATION'S BUSINESS will give you a chance to compare your evaluation of the business outlook for the coming year with that of other top executives in companies throughout the nation.

The report on the outlook as seen by leading businessmen will be based on a survey now being conducted by NATION'S BUSINESS editors.

Predictions will cover sales, profits, employment, capital spending. In addition, executives participating in the survey will tell what they think about such problems as the need for new tax write-off provisions and improved relationships between business and the Kennedy Administration.

Do businessmen believe war will break out next year?

What moves do they expect organized labor to make next?

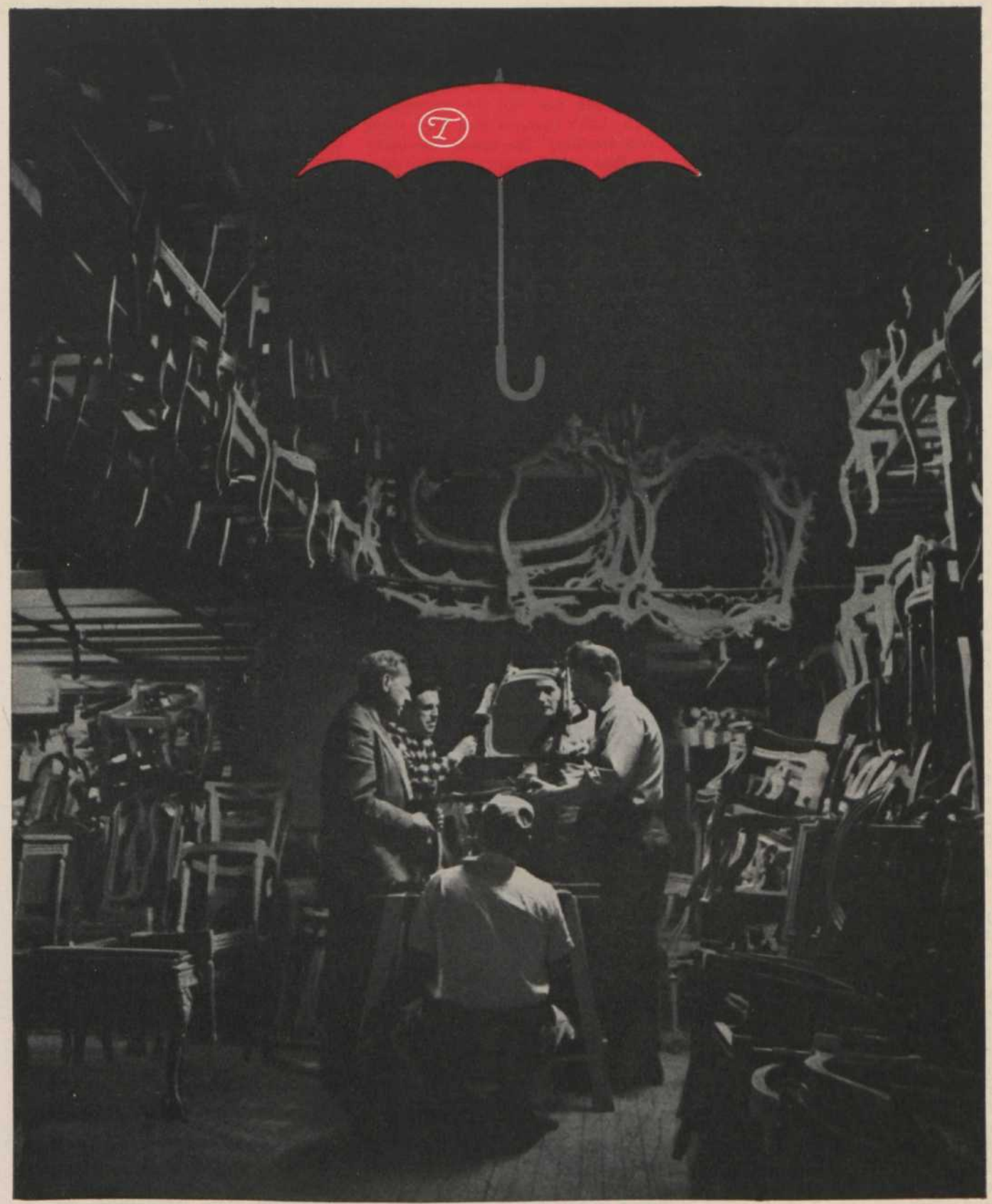
How do they plan to stretch profits in a period of steadily rising costs?

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million of federal help for cities to acquire open spaces for parks, recreation, conservation and scenic areas; the urban groups suggested a $500 million, ten-year program of transportation help and a $500 million, five-year program of open space support.

City officials urged not only continued and enlarged aid for new hospital construction but a $150 million annual program to modernize and renovate older hospitals. The municipal groups led a successful fight for more than double past federal spending for community health services and facilities.

Advocates of the Urban Affairs Department have supported new programs of federal spending—some large, some small—to combat air pollution, provide special housing for minority group members, build arterial streets, construct libraries and cultural facilities, subsidize public works planning, and help in locating and relocating industry.

The International Association of Fire Fighters even argued that "fire prevention in this day and age is no longer solely a matter of local concern, but is a serious national problem," and urged the federal government to provide technical assistance and planning aid to local communities in this field, help standardize equipment and appliances, and promote regional and interstate cooperation among fire departments.

Need to cut deficit

"There is a steady stream of pious protestations in government," says the Senate minority report, "that we need to cut down the deficit and the public debt, but we will, in one sweeping gesture, create a Goliath which will drain our Treasury and which will keep a watchful police eye on every urban community and its citizens, planning, spending, directing, until citizens will not call City Hall when streets need repair or a water main needs replacing, but will notify their congressman to contact the cabinet member handling such problems, seeking repairs and services."

Establishment of the Urban Affairs Department, opponents predict, will encourage groups pushing other new departments to lobby for their interests within the government. Bills already are pending to set up a dozen other new cabinet posts, ranging from a Department of Transportation and a Department of Science to a Department of Peace and even a Department of Public Relations.

Opponents use other powerful arguments, too. To the contention of the bill's backers that they want "coordination," the opponents point out that two federal agencies contributing from half to two thirds of all residential mortgage financing are omitted from the new department—the Home Loan Bank Board and the Veterans Administration. The bill's critics suggest these have been deliberately omitted for the time being to avoid stirring up opposition from veterans and housing groups, but that once the bill is passed, the new agency will grab for them. The same argument is made about many other programs which logically could be expected to go into the new department but which are being left for the present in other agencies.

Thus, while the sponsors proclaim they want to give city officials "one-stop service" in Washington, they've carefully left in existing departments a long list of urban programs ranging from roads and airports to schools and water pollution treatment facilities.

Emergency controls are ready for use, says planner. See interview, page 36

The bill's backers have for the most part been carefully guarded in public about programs that might later be transferred to the new department, but every once in a while some clues are dropped. Thus Rep. J. Arthur Younger, the California Republican who was one of the department's first proponents, told the House Government Operations Committee that he thought such programs as helping cities to fight smog and polluted water "would be included, normally" in an Urban Affairs Department, and that aid for education "could well be transferred to this new department."

When the bill's adherents argue that cities deserve cabinet representation, opponents counter that other cabinet members such as the Attorney General, Secretary of Labor, Secretary of Health, Education and Welfare, and others already serve urban interests, and that this new department would be the first set up on geographic rather than functional lines.

They suggest that cities should use the facilities of existing departments and, if something more is needed, it could be provided by a coordinating official in the Budget Bureau or White House—without any huge new bureaucracy set up to lobby for new spending. Cities can do far more to help themselves solve what are and must remain primarily local problems.

Finally, opponents make a major stand on the argument that the new department would undermine the traditional American federal system. Cities, they say, would turn more and more to the central government, by-passing state and other local units. These would atrophy, and ultimately the cities themselves would be swallowed up by the central government.

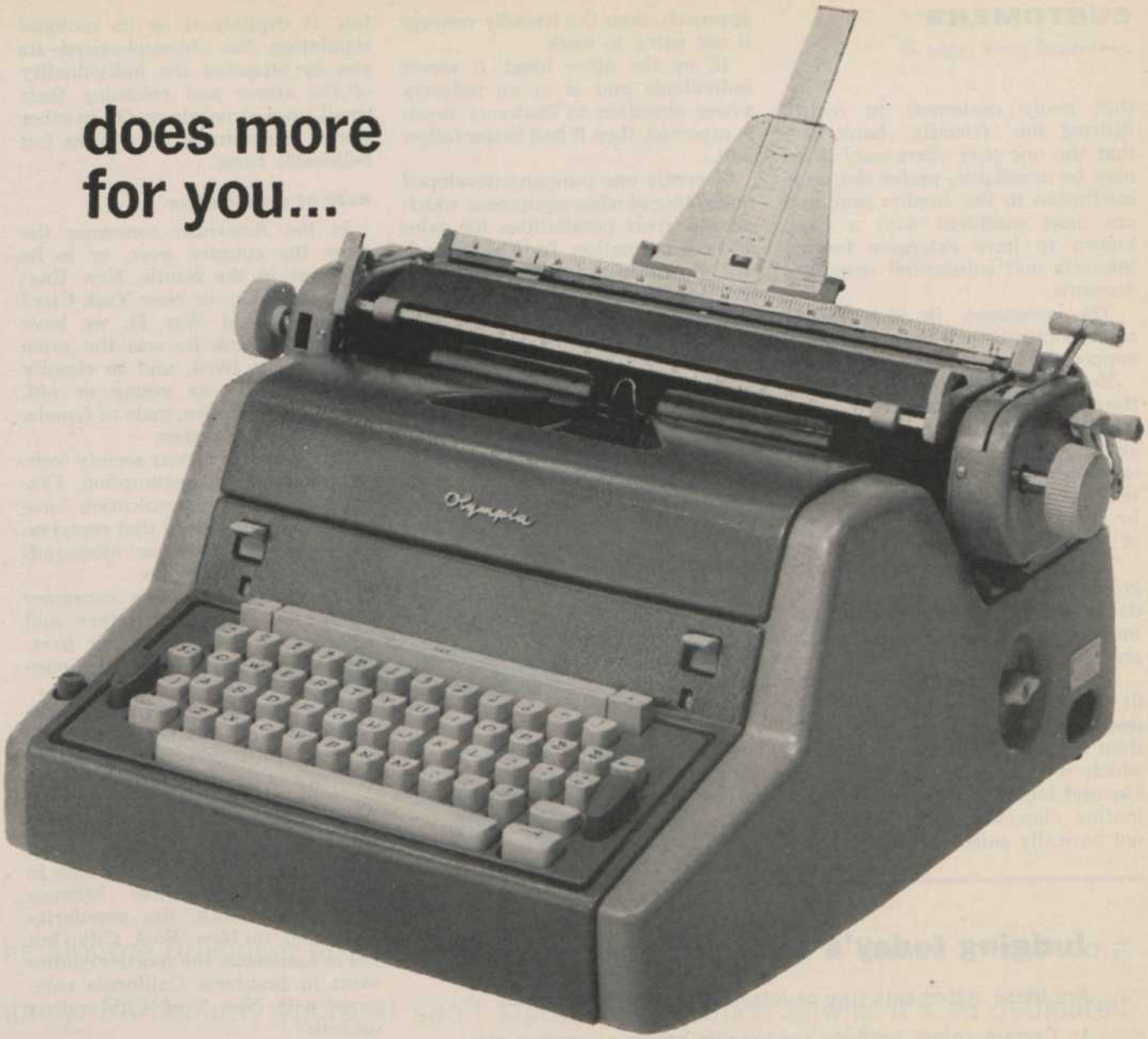
"A powerful cabinet department of this type would tend to weaken existing relationships between the states and their political subdivisions and would materially accelerate the dependency of local government upon the national government," the Executive Committee of the Governors' Conference declared in opposing the proposed new department.

Cities might dominate

Said the National Association of County Officials: "We feel establishment of such a department may well empower large metropolitan cities to deal directly with the federal government, by-passing not only the states but local communities as well. . . . Those of us at the local government level have grave concern that the proposed department, once set up, might strengthen the hand of the metropolitan core city to the extent it would be in a position, because of its close association with the federal government, to dominate other local municipalities which operate contiguously to or within the periphery of the core city's metropolitan area."

The Senate minority report warns that "a line of communications will be set up directly from the city mayor's office to the center of the federal government. County commissioners, state legislatures, governors will be ignored." And as for the cities themselves, "If Washington pays the bill, Washington will direct the action. . . . More than hopscotching over state and county government, this new department can eventually nullify local city government." **END**

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Olympia

continued from page 38

that many customers in reality distrust the "friendly" bank, feel that the one that offers easy loans may be unreliable, prefer the large institution to the smaller one, and are most confident with a bank known to have extensive foreign interests and substantial corporate accounts.

The consumer, in fact, is far more sophisticated than has been supposed.

Yet, when properly promoted in the area where they properly belong, friendliness and informality can be great assets. Many small stores, for example, have survived in competition with huge self-service centers by manifesting a genuine attitude of friendliness.

The proprietor of a small specialty grocery store, for instance, may deliver at almost any hour, order individual items, advise on menus and housekeeping problems.

A company's character should fit the nature of its business. If it deals with other businesses rather than individuals; if the industry to which it belongs is one in which size and impersonality are the dominating element; if its product is not basically suited to the informal approach, then the friendly concept is not going to work.

If, on the other hand, it serves individuals and is in an industry where attention to customer needs is expected, then it had better follow suit.

Recently one company developed a new line of office equipment which offered great possibilities for sales all over the nation. In thus expanding its operations, it would be entering new and untried fields in competition with some of the country's biggest firms. What kind of an image should it project?

After a study, it adopted an image of size and reliability: a classic type style for its logotype, clean, contemporary company colors, an abstract, geometric design for its packages, an efficient and futuristic architectural style for its sales and administrative offices. Reliability, impersonality, and advanced methods of scientific research became the focus of its corporate personality.

In a contrasting case, a good-sized company manufactures and distributes candy, which is personal and informal. The authoritarian image simply doesn't fit a box of candy. This company decided to suggest, via packaging, trademark, and especially store design, an atmosphere of informal gaiety and fun. It capitalized on its national reputation but de-emphasized its size by stressing the individuality of the stores and retaining their small town atmosphere. Or, in other words, friendliness on a mass but believable basis.

Role of regionalism

Is the American consumer the same the country over, or is he different in the South, New England, the West, or New York City?

Since World War II, we have tended to think he was the same wherever he lived, and to classify him primarily as young or old, worker or executive, male or female, rather than by region.

The facts of postwar society form the basis for the assumption. Distribution and communication have become so centralized that everyone is exposed to the same ideas, advertising, and products.

What's more, today's consumer is mobile, where his father and grandfather stayed put. The average American family moves once every five years.

How then can we account for the phenomenon of the northerner who moves South and becomes more southern than third and fourth generation southerners?

Or, how do we explain the continuing popularity of Cape Cod houses in the East, the difference in soft drink preferences between North and South, the popularity of Scotch in New York City, but not in Louisiana, the sportier clothes worn in Southern California compared with New York City and its suburbs?

Each time it moves, the American family adapts itself with ease and alacrity to local customs.

This adaptability has not been wholly recognized.

Some companies still concentrate market research on one geographical area, presumed to be typical of the whole country. We would achieve more precise results if the research were spread over several important areas, recognizing that a national product must meet the demands of many varying regional tastes.

On the other hand, the local advantages of regionalism should not be ignored. Manufacturers and retailers alike could do much more to promote their wares within a given area by emphasizing the regional aspects. Cooperative community business programs can be aimed at inspiring newcomers to buy the products and services which are tied in with an area.

No locale is barren of individual

Judging today's consumer

Are these statements true or false? (Answers on page 50)

1. Certain colors produce predictable reactions among customers. Red, for example, is a sure-fire attention getter; purple acts as a depressant.

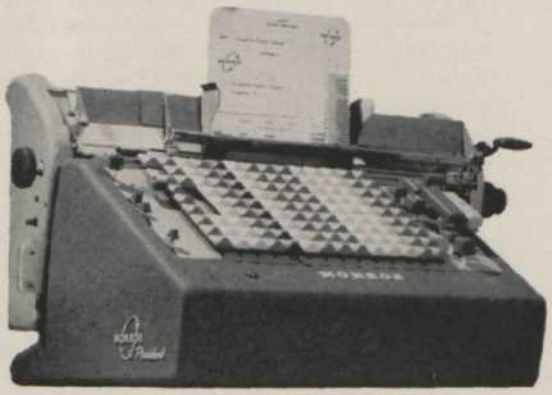
2. While some men enjoy cooking, their wives either resent or belittle their efforts. The woman feels she reigns supreme in the kitchen.

3. Customers select cigaret brands on the basis of their image rather than their taste.

4. Consumer reaction to new product or package designs can be predicted by testing these against the old designs before market introduction.

5. Most consumers cannot distinguish one compact car from another nor can they identify the manufacturers of most of the major makes.

6. One of the attractions of the typical shopping center and supermarket is its huge parking lot, which is a great convenience factor.



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CUSTOMERS

continued

flavor; business can do much to capitalize on this, and turn regionalism into an asset.

Self-service

Another half-truth says that self-service is the key to our modern marketing system.

The fact is that, although many consumers do prefer the greater convenience and economy of self-service, not everyone is crazy about it. Research studies for companies building or refurbishing supermarkets, for example, show considerable consumer dissatisfaction with the self-service store. Many householders find shopping a chore.

Many a supermarket is a barnlike structure, devoid of decoration beyond the rows of shelves that line its white-walled interior. The aisles are barren, straight-lined, fatiguing to traverse. Goods are hard to find, it is sometimes unbearably noisy.

The average customer gets in and out of such a market as fast as she can. As a result, the retailer who produces a pleasant atmosphere and eliminates some of the fatigue of shopping gains a real sales advantage.

This can be accomplished through more thoughtful and intelligent design of self-service outlets. A number of supermarket chains have been applying this kind of thinking to break up the monotony of supermarket interiors by color, lighting, signs, and decoration.

In these stores, the consumer moves from the produce section to the canned goods section, to the meat area, as if she were going through a series of small specialty shops. As the lighting, the color and the appeal change, the effect is alternately stimulating and calming, reduces shopper fatigue and makes goods easier to find. Consumers come to shop, but remain to enjoy themselves, and end up buying more.

Sales appeal

What accounts for the popularity of many foreign imports?

In part at least, it is caused by an increasing consumer dissatisfaction with some American-made products which have been sold on the basis of gimmicks, or the claim that they are new. On the other hand, American-made products which represent real advances or real convenience and quality at realistic prices have won the allegiance of the consumer.

There is a lesson in this. Consumer preference is based on good product performance.

The American consumer is not an irrational purchaser who must be wooed by irrational appeals, but a sophisticated shopper who is looking above all for convenience, economy and quality.

The American consumer is, in sum, a rational being, motivated by fashion and class appeals, but at the same time, a careful, shrewd and knowledgeable buyer. He is also a willing and enthusiastic buyer, one whose needs are by no means sated, and whose pocketbook allows him to satisfy those needs.

In short, if you get to know him, an ideal customer.

—WALTER P. MARGULIES

The author is a well known authority on design and marketing.

Answers to quiz on page 48

1. False. While colors viewed in isolation produce predictable emotional reactions, they may have different effects when seen in a store. A red package, for example, will not attract attention if it is displayed beside other red packages. Purple will elicit pleasant emotions when used for feminine or cosmetic products.

2. False. A study of women's attitudes toward the husband-chef indicated not only that they approve of his culinary efforts, but also that a sizable percentage felt the men were better cooks.

3. True. Few people can distinguish between the taste of one brand of cigarets and another. They buy on the basis of the cigaret image and look on cigarets as an extremely personal item.

4. False. Such tests do not produce true results. The consumer invariably responds on the basis of his already-formed idea of the old design. A truer test is to test the new design against competition.

5. False. A study of compact car identification showed that the overwhelming majority of car owners were familiar with all the brands and could identify their makers.

6. False. The location and size of these lots often force a shopper to park far from the store and hence to carry his purchases a long distance.

REPRINTS *of "Why Customers Buy" may be obtained for 15 cents a copy or $10.15 per 100 postpaid from Nation's Business, 1615 H St. N.W., Washington 6, D.C. Please enclose remittance with order.*

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We also make a funny-looking car.

Maybe our car looks like a beetle.

And maybe our station wagon looks like a bus.

But our truck defies description.

You have to understand what it does to appreciate how it looks.

It weighs only about half as much as a half-ton truck, but it carries almost twice as much: 1,830 pounds against 1,000.

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The air-cooled rear engine doesn't use water or anti-freeze; you get exceptional traction in bad weather.

And you get the kind of mileage you'd hope for in a small car; never mind a big truck.

A Volkswagen Truck is small enough (and big enough) to deliver 10 pounds or 100 pounds as economically as the whole 1,830.

So now you know why people who own VW Trucks haven't minded a few laughs about the way it looks.

They've had plenty of laughs of their own.

All the way to the bank.

COURAGE

continued from page 33

are willing to let the government take care of them from the cradle to the grave. The incentive to succeed on your own and help your fellow man is seldom found today.

We have gotten into the habit of begging for help from our government. You have to go to Washington and plead for a franchise or for a permit or for some other privilege that we are entitled to by the Constitution. People have forgotten what is in the Constitution.

Under existing conditions, I doubt if I could do today what I have done in my lifetime and in business. The man 30 or 40 years old today is much less likely to try because our laws thwart incentive, and because a widespread political philosophy lacks respect for the individual and his independence.

Courage is built on self-reliance. This should be learned early. I quit school at 11 years of age in the seventh grade and went to work six nights a week, 12 hours a night, for $3.50 a week. That was a lot of money. Today, it wouldn't buy a tenth of what it did then. I walked seven miles every evening and seven miles home again the next morning to save a nickel carfare. My widowed mother needed that nickel.

Experience taught courage

I have been in many situations which taught me about courage. I faced death in my auto racing days, as a World War I pilot and on a life raft in the Pacific Ocean. One main reason I was able to cheat death was not because I was brighter or braver than anybody else. But I found that you can develop courage—whether it's your life or your money that is at stake—if you use your ability to foresee every potential danger and if you have faith. You can avoid many risks if you know what can happen and what won't happen by thinking through a situation in advance.

You also learn courage through disappointment and failure.

After World War I, I helped organize the Rickenbacker Motor Company. Under my guidance the four-wheel brakes were developed, and this car was the first production model produced with them.

Unfortunately, the people weren't ready for this complete revolution in the automobile as they felt these brakes would not be safe. So the company failed.

This was a terrific blow to me personally, because my name was connected with it; and then I, like so many thousands of others who had invested their hard-earned money in the stock, lost everything.

However, a banker friend of mine called me and said, "Eddie, I know you are not going to let this thing get you down. If anything comes along that looks worth while, bring the proposition to us and maybe we can help." Here I was broke, and at the same time being offered money. It gave me renewed confidence.

I had a number of irons in the fire but finally went with the Cadillac Division of General Motors. Then I was interested in buying the Allison Engineering Company. It was a beautiful little plant, started after the war by Jim Allison and Carl Fisher. When I approached Jim Allison about it, he countered by suggesting that I buy the Indianapolis Motor Speedway.

I had never given this a thought, in spite of the many times I had raced there. After thoroughly investigating it, I found it was a fine piece of property out in the corn fields at that time, but I saw the intrinsic real estate value through a long pull. So I bought it for $700,000 and had it financed with a bond issue through my banker friend mentioned previously. We never defaulted, and the track was rebuilt and other improvements made. It proved to be most profitable and successful until I disposed of it in 1945.

Coming in December: Qualities of Victory, Part 2, Morality, by a prominent clergyman

My first love was aviation.

My first experience in this field had been with Florida Airways, through a financial interest. This line operated from Jacksonville to Tampa to Miami. We had a contract with the Post Office Department to carry mail at the rate of $3 per pound. But, as with the four-wheel brakes, we were ahead of our time. No one was writing air mail letters. No one was riding airplanes. We were all pioneers, but we had trouble from one week to another meeting the weekly payroll.

Finally, one of the agents got the idea that it would be profitable to write a friend in Tampa or Miami from Jacksonville, soak the letter in water, and then put it in a mail bag and weigh it. So our poundage increased.

Then he went further. He got an ordinary brick and found that if we could buy enough stamps to ship it by air mail, we would make a 50 per cent profit on it. That worked all right until one day somebody forgot to wrap the brick properly and the postal inspectors caught up with us. We deserved the spanking we got and finally went broke. Another failure, but I was young and still had courage and the desire to forge ahead.

So when the depression came along in 1929, I knew how to work and how to look out for danger. Executives all over the country went to the bottom, and some even jumped out of windows. They never had to face such a thing before, and many of them didn't have the courage. These were my most lucrative days.

$3.5 million in 30 days

Of all my business experiences, I think the one that took the most courage and caused me many sleepless nights was trying to obtain finances to buy Eastern Air Lines.

In 1933 I became vice president of North American Aviation, controlled then by General Motors, of which Eastern was a subsidiary. In the fall of 1934, I became general manager of Eastern.

One winter afternoon in 1938, I learned that John Hertz had an option to buy the airline. I was stunned. I had put Eastern in the black in 1935. There had been a loss of $1.5 million the year before, caused mainly by the government canceling all air-mail contracts. We made $38,000 in 1935 by being ultraconservative. I became a three-percenter, so to speak, rather than a take-all man.

In 1934, Eastern could have been bought for $1 million, but you couldn't find anyone who had any confidence in air transportation to put up the money.

When I received word about the sale of Eastern, I went to Alfred P. Sloan of General Motors and found out it was true. It was one of those catch-it-when-you-can deals and totaled some $3 million.

I then asked Mr. Sloan to be given an equal opportunity to raise the money in order to save the airline for the boys and girls who had worked so hard to develop it. This was granted, and I was given 30 days to raise $3.5 million, the amount needed to outbid Mr. Hertz.

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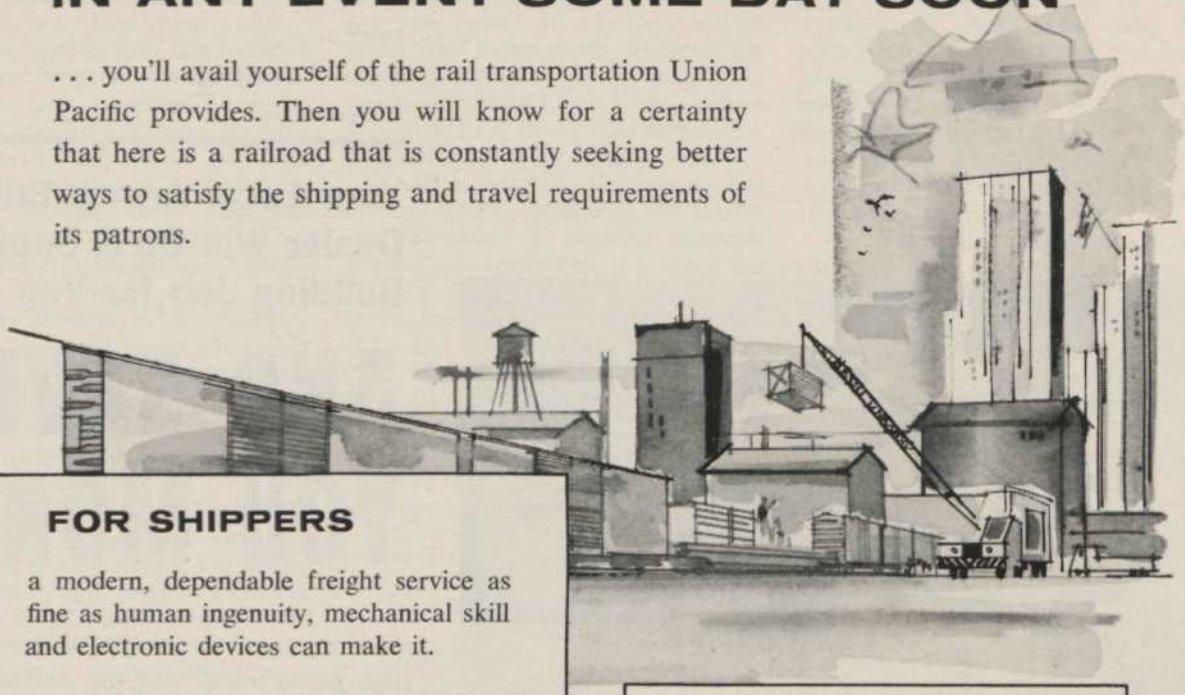
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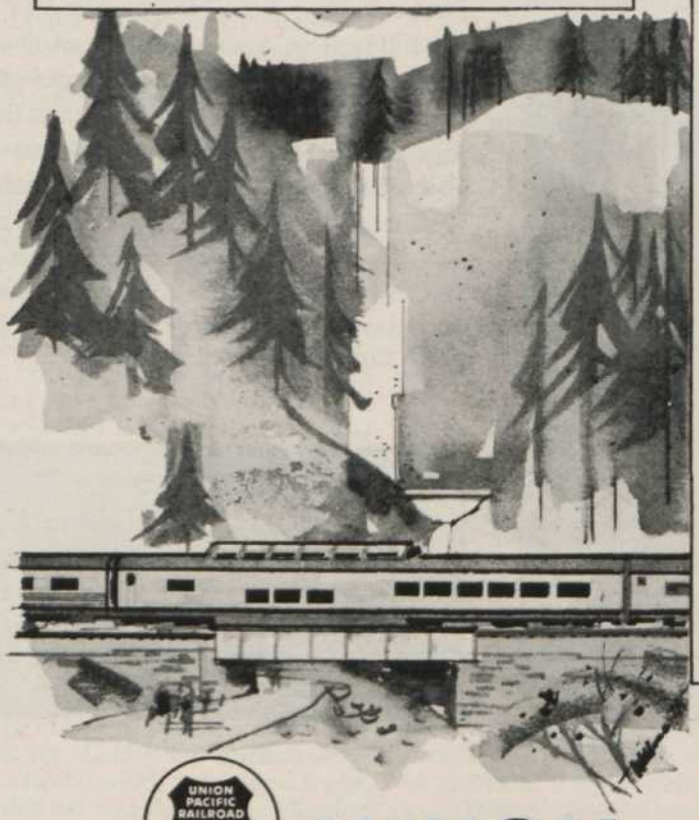
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COURAGE

continued

Kuhn, Loeb & Company, of Wall Street, interested.

It was getting near the deadline. They had not said "yes" and they had not said "no." Finally Saturday night came. Six o'clock Sunday was the deadline. They had indicated that they would go through with it, but until you get the bird in the hand, you can't be too confident.

I was worrying about it and finally called Mr. Sloan at his apartment at 11 o'clock Saturday night, and asked him if I could impose on his good nature and come over to see him for about 15 minutes. This was granted.

On my arrival Mr. Sloan met me in his bathrobe, pajamas and slippers. He had been in bed. I advised him that I would like the option extended another ten days, as I had not yet received word from the financial people. Instead of 15 minutes, we talked for an hour. Finally, he looked me in the eye and said, "If I were you, Eddie, I wouldn't worry too much." With that, I thanked him, apologized again for disturbing him, and left.

The next day, Freddy Warburg of Kuhn, Loeb & Company called me and asked me where I wanted the money. At 10 o'clock Monday morning, I received a check made out to General Motors for $3.5 million.

I doubled and trebled everything I promised to do with Eastern. In 25 years out of the 26 I have been with it, we were never in red ink. With the help of the pioneers of the company, the airline became one of the most successful in the industry, but it meant working day and night, and watching the mills as well as pennies and dollars.

What incentive is left

But, today, what incentive is there for me to create, to develop or to work 14, 15 and 16 hours a day when I'm in the 85 or 90 per cent tax bracket? For all I receive on what I earn is 10 cents or 12 cents on the dollar. To pay my taxes, I have to dip into capital that I earned before I even came to Eastern Air Lines, a generation ago. And I am not the only one in that same boat.

This disastrous increase in federal taxation has seriously injured every American's ability to spend or save what he has earned. But there is a deeper injury, too. Government money means government power. And the federal government is using that power to a greater degree than ever before.

The American citizen finds himself snarled in rules, regulations, forms, questionnaires, reports and declarations, estimates, audits and examinations.

At the same time that the government is spending billions of dollars it has taken in through taxes on business, it is in competition with private enterprise. There are 700 large government-owned corporations running some 19,000 kinds of businesses, each competing with American private enterprise. They use our taxes to cover their losses.

The federal government has seized through the tax laws much of the power that is supposed to be reserved to the states and the people. Give back a fair share of this tax money, and you will get incentive and build courage beyond anybody's dreams.

Confidence and courage develop in an individual the desire to create, pioneer and overcome challenges and problems by himself. Let a man keep most of what he earns, and he will do plenty of pioneering.

If, on the other hand, we continue to concentrate all the money and power in Washington, all the communists have to do is take one city. They wouldn't have to infiltrate and subvert 50 sovereign states.

What the communists want is our industrial organization, our transportation and communications networks and our banking system in working order. They don't want to fight in the streets of every town in the country. Their job will be much easier if the control of the country is centered in Washington.

If Washington continues to make our decisions for us, and use our taxes to buy solutions to our problems, we will kill self-reliance, individual confidence, and the courage that self-reliance brings.

In the past men were willing to fight for their independence and to protect their liberty. As long as men have the courage to fight and die for their convictions and for liberty, America will go forward. For a nation of people without self-reliance, without courage, is a nation already dead. **END**

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This story is typical. The Journal is valuable to owners of small businesses. It is a wonderful aid to salaried men making $7,500 to $30,000 a year.

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NB-11



IT TAKES TWO TO REACH THE TOP

New study offers hints on how to develop key subordinates who can help you advance

THE PRESIDENT of a large Midwestern bakery chain recently confided to an inquisitive social scientist:

"The thing I look for in selecting a key subordinate is whether he in turn can develop a key subordinate. If he can, then I know he will understand how to be a key subordinate to me."

The executive's remarks were similar to those of a majority of top-ranking businessmen interviewed during the past year by researchers from Michigan State University. The researchers asked: What is the most important steppingstone to success in management?

The answer, they concluded after 116 interviews with executives from 83 firms, lies in being an effective subordinate to the man above you and, at the same time, possessing the capacity to develop capable aides of your own.

Too often, managers tumble from the ladder because they fail at one or both of these functions. Typically, ambitious men assume that if they can hitch their wagons to rising stars they will scoot to the top more quickly.

However, study of the career patterns of executives who glide easily to the top shows much emphasis in the opposite direction. The advancing manager spends as much or more time in developing and maintaining an effective aide who will aggressively serve his best interests as he does in supporting his boss.

The first of the two functions—being a good subordinate to the executive above you—was discussed last month in NATION'S BUSINESS in "How to Satisfy the Boss."

What about the second half of the equation? Evidence points to the need for at least five steps in finding and developing key subordinates:

- ▶ Know what you want.
- ▶ Compare what you want with what would be desirable for the organization.
- ▶ See who can do the job.
- ▶ Train the aide for his responsibility.
- ▶ Support and protect your man.

What do you want?

There are many ways to use key subordinates. One of the three most common ways found in the Michigan State study is illustrated by the chief of staff. He is a strategist who sees that his superior's aims are carried out. He coordinates and integrates activities, and excels in the capacity to see relationships, sequences, and patterns. He makes himself known by his desire to arrange things in a tidy manner.

To be able to use this type of manager effectively requires real administrative skill. Often a chief of staff becomes obnoxious because of his copious attention to trivia. An aggressive boss may find this quality exasperating. Yet, a creative, impulsive superior needs this kind of subordinate to carry out his ideas and directives.

The second most common key subordinate is the confidant. He's an adviser to whom the boss goes for expert opinion, understanding or sympathy.

Some say the confidant should be someone outside the organization. Others argue that to be effective the confidant must be immersed in the daily problems with which the executive is concerned. In that case the confidant may be an associate or even a superior.

Still others believe that a confidant should be a subordinate who knows how to act as an equal when his superior calls on him for advice. More and more managers are using subordinates as confidants. The executive who remains aloof from his subordinates seems on the way to becoming obsolete.

The modern executive needs help from all, especially one who understands and appreciates his problems without having ulterior motives.

The confidant generally is not in charge of seeing that the boss's orders are carried out. Rather, he stands aside and gives advice to the superior who in turn may direct activities through his chief of staff.

The adviser must excel in the ability to listen attentively and speak cautiously but relevantly. He may have a kind of bedside manner with warm, reassuring attitudes toward his superior. He must be able to relieve the boss's feelings of loneliness without intruding too far.

This type is not easy to spot because his role is becoming more and more popular. Many subordinates want to get the boss's ear to gain prestige and status. Although there are many who would like to "play ears" with the boss, only a few are able to be good listeners and keep privileged information confidential.

A third type of key subordinate disclosed by the recent research is the implementer. He serves as the strong arm of authority and discipline. His activities are varied, but generally consist of supervising. At

best he is a forceful leader; at worst, a hatchet man. Whatever role he plays, it is not as glamorous as the other two.

Yet businessmen will tell you that the supervisory type is needed. Without him the superior and the organization suffer. But this kind of aide must be carefully supervised himself. He can tend to extremes, being either too lenient or too firm, too apparent or too secretive in his activities.

The ideal subordinate must be a little of all these three types. He must also have two other vital attributes:

He must be able to meet occasional crises, as well as perform routine functions day in and day out.

He must be able to live close to the boss as a person. Managers vary among themselves as much as they differ from subordinates. But they all want their key people to be readly available on request with an open mind and clear receptivity. One boss remarked to a study interviewer: "Somehow my subordinate and I are not tuned in to each other. I feel that he is not totally there when I am talking to him."

Closely allied to accessibility is



Managers who excel in development of strong subordinates have an almost uncanny capacity to recognize ability where others might see only mediocrity

sensitivity, which is the capacity to know and appreciate the boss's unique qualities. Highly valued also is the capacity to move with care and speed, to change direction if the boss desires. And, of course, loyalty is invaluable.

A problem in looking for the right traits in subordinates is that bosses often delude themselves about their true strengths and weaknesses. The boss must know what qualities he lacks but needs in order to provide an effective administrative team.

Bosses who have risen rapidly often have an exaggerated opinion of themselves in at least one area of ability. The slow risers usually are prepared to see more of their own weaknesses.

A clear understanding of oneself is a prerequisite to developing an effective administrative team. Without it there will be a mismatch. One boss kidded himself into believing that he was a man of decision. He selected an implementer as his chief subordinate. But because he really could not make decisions, he relied too much on this aide, who was stretched beyond his capacity.

What does the organization need?

There are limits on the kinds of relationships that may exist between a boss and a subordinate. No relationship is quite as delicate and subject to controversy. It produces rumors, reported crises, mysterious happenings that may be every bit as rampant as those surrounding an illicit love affair.

The president of a bank reported, "If I raise my voice to just any one, I am emphasizing a point. If I raise it to my first vice president, I am eating him out."

The chairman of the finance committee of a large automobile company remarked, "If we (he and the executive secretary of the committee) walk rapidly together, we are chasing a crisis; if we whisper we are talking secretively about a crisis. Actually we may both be going to lunch or simply swapping jokes."

These examples demonstrate that in picking a key subordinate you must not ignore the needs and dispositions of people in your organization. In some companies a confidential relationship may not be appreciated. In others it is expected. In some organizations the tendency to remain aloof from people may be so common that it will be difficult to pick an adviser. In still other organizations the chief aide frankly plays the role of trouble-shooter and investigator.

In some cases the manager may never really know what his company needs or will accept until he experiments. Research thus far indicates that more and more key subordinates are serving in confidential advisory roles and less and less in investigative functions. These assignments often are handled by specialists.

Who are capable?

The next step is often the most difficult and most underrated in importance. Many bosses tend to be impatient in looking over their personnel to see who can do the job. Sometimes they set such high standards of performance for themselves that they are overly critical of others. Oddly enough, they may bring in unproved men from the outside to perform the role of key subordinate. This, of course, is dangerous.

Your city would be ruled from Washington under proposed plan. For facts, see **page 34**

It is likewise dangerous to select your chief aide carelessly. Managers who excel in developing strong subordinates have an almost uncanny capacity to spot uncommon ability. Without this ability the manager may compensate by attempting to sharpen differences among subordinates by setting up special projects to evaluate desired potential. Take a look at managers whose advancement has been slow and you will usually find that they have failed to draw out differences among subordinates.

How to train a key subordinate

You must prepare the candidate for his role. When you make your decision, it should not be immediately carried out. A subordinate becomes your key man because he has learned to heighten your effectiveness. This is not learned overnight.

A good aide develops because he is carefully prepared for the role. Managers often report that they favor not letting the individual know their plans for his future. Rather, try him out and gradually build him until he suddenly realizes that he stands in a different relationship to you than do others.

Even at this time it may not be altogether wise to make his position official.

Sometimes the most crucial phase in a key subordinate's development comes when he realizes his new status. Sometimes this awareness goes to a man's head and he begins to exploit his position. Other times a lack of sensitivity may be disclosed by his unawareness of what is happening. In either case, this stage may make or break him and thus must be carefully observed.

If the boss withholds making his decision final, he is better prepared to change his mind if his first choice proves to be a mistake. From this standpoint, training your candidate must be viewed as part of the selection process.

Give him enough time to develop whatever traits you consider to be important.

The Michigan State study shows that the majority of executives now in a key subordinate role were in the same role with the same superior as much as ten years ago. The relationship is long in developing and seldom broken overnight.

Support your choice

By this time much time and energy have been invested in your choice. You must protect your investment.

The question is whether to make the subordinate's role formal or not. In the past, for example, a president who had six vice presidents would often signify his choice by giving his chief aide the title "executive vice president" or "first vice president."

Today titles are given with greater regard to an individual's psychological needs than his functional contribution.

Frequently an adviser-confidant cannot be located on the organization chart. The same can be said of the trouble-shooter. The chief of staff is often identifiable on the chart, but even then he may be operating as an adjunct to a subor-



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REACH THE TOP

continued

dinate who is officially the top man's immediate subordinate.

When the immediate subordinate is also the key subordinate the relationship is, of course, formal. Otherwise the boss must make the relationship plain to others if they appear not to understand it. In any event the boss must support and protect his choice. Even an aide of rare administrative ability may be placed in jeopardy if the boss does not sustain his support or fails to help him around obstacles.

What often distinguishes an effective manager is his ability to single out and develop capable subordinates and to keep their undivided support. The emerging trend in business is to hire a team, rather than an individual. This has become so common that a good executive now is generally described as one who will insist on bringing along his own aides.

The executive who is not able to develop and maintain key subordinates stands less chance to be wanted or to succeed. This executive must start from scratch on entering a new job and must risk having his aides selected for him.

In spite of the apparent need to develop and maintain the diligent support of effective subordinates, the path to corporate power is strewn with capable managers who once were held in high esteem and trust but whose support became dissipated by the neglect, indiscretion, and indifference of their superiors.

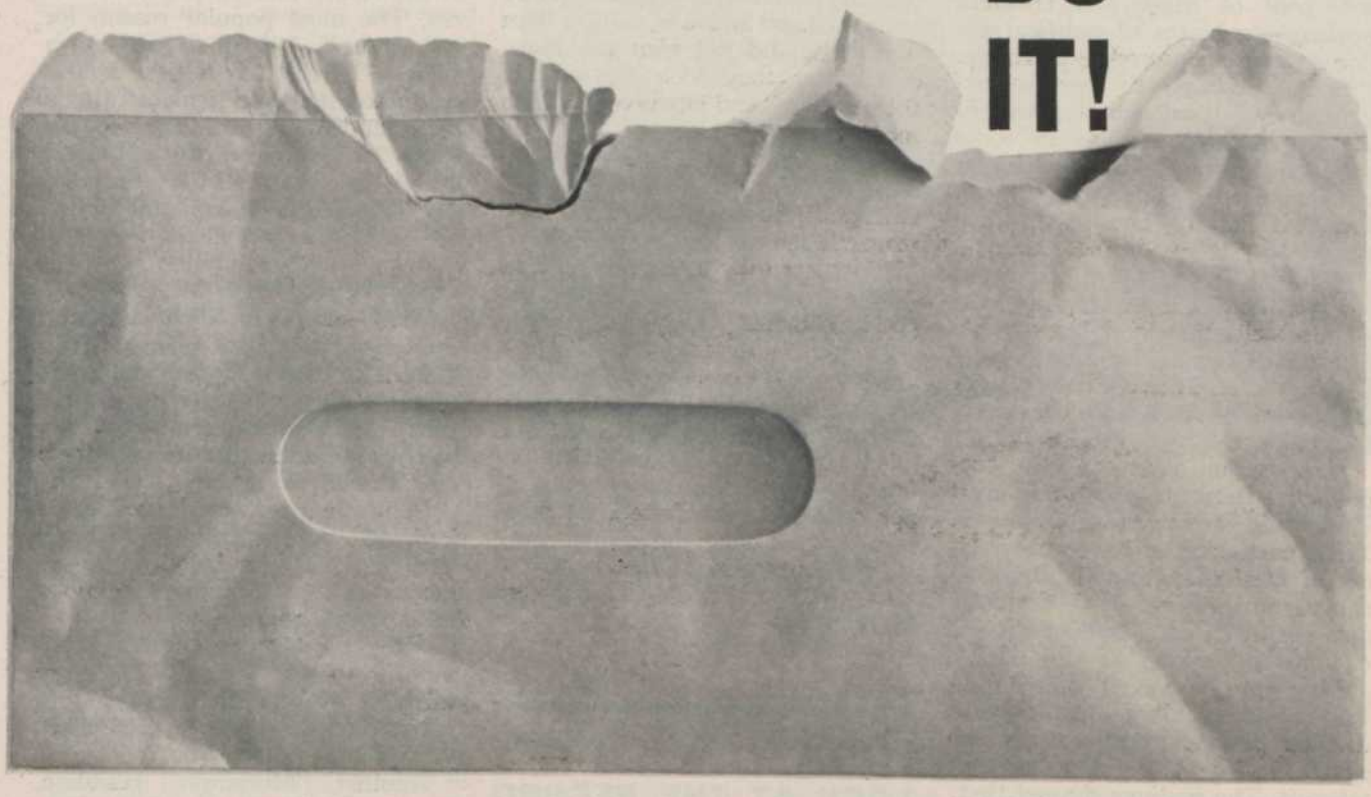
To be able to find one or several critically helpful subordinates and to bring them along as one progresses to higher responsibility is a rare administrative skill. Too often executives rise faster than they can develop subordinates and thus find themselves eventually running one-man shows. Or because some executives are afraid to change horses in the middle of the stream, they carry on with subordinates who are not capable of playing key roles.

In either case, the executive must rely on himself too much, which harms him and his organization. An effective executive trains key subordinates as well as being one himself.

—EUGENE EMERSON JENNINGS

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POLITICAL ACTION

Training pays off

Surveys show that courses boost employes' interest and activities

CANDIDATES in this month's state and local elections are tapping a new pool of eager and effective workers—graduates of political action courses sponsored by business.

Such courses greatly increase participants' political activity, according to employe surveys in some companies using the U. S. Chamber of Commerce Action Course in Practical Politics, now in its third year.

"Today, in a world of rapid change, there is a growing need for an alert citizenry and for capable candidates for public office," says Charles Allen Thomas, chairman of the board of Monsanto Chemical Company.

"Our action courses have succeeded, I think, in promoting good citizenship among our employes. Their participation in a wide variety of local community and political party positions is a dramatic demonstration of a high quality of citizenship."

Monsanto surveyed more than 1,100 of its employes, about equally divided between graduates of the course and persons who had not taken it. The findings showed that:

Action course graduates are more active politically than those who have not taken the course.

The number of graduates who made political donations tripled after the course.

The number of graduates affiliated with political organizations increased nearly four times.

The number of graduates who distributed campaign material, solicited funds, or did precinct work increased three to four times.

Graduates attended more political meetings and performed more election-day work than they did before taking the course and more than did nontakers.

To get a before-and-after picture, the action course graduates and the nontakers were compared on the basis of their political activity from 1956 to 1960. Monsanto began offering the course in 1959.

Answers to the survey showed that persons who volunteered to take the course were originally more interested and active in politics than those who did not sign up. However, after they took the course, their activity and effectiveness both increased.

"The course gave me a new insight into what goes on in politics," George E. Bennett, of Monsanto's research and engineering staff, says. "It increased my knowledge of how political parties function at the grass roots level and opened up a new area of interest for me."

In the 1960 presidential election, 39 per cent of the graduates made donations to political parties and candidates. In the 1956 election, before they took the course, only 13 per cent had contributed. Of those who did not take the course, only six per cent made political contributions in 1956 and only 11 per cent in 1960.

LOOK AT THE RECORD

Political activities of graduates and nontakers of action courses showed these increases between 1956 and 1960, according to Monsanto's study:

Distributing campaign material—graduates, nine to 28 per cent; nontakers, seven to 13 per cent.

Soliciting funds—graduates, three to nine per cent; nontakers, one to two per cent.

Making speeches—graduates, one to three per cent; nontakers, one per cent with no change.

Doing precinct work—graduates, five to 21 per cent; nontakers, three to five per cent.

Other activities—graduates, one to five per cent; nontakers, zero to one per cent.

Those who made contributions were asked if they planned to do so in the future and 99 per cent said yes. The most popular reason for giving was to help their party or a favored candidate. Action course graduates, however, demonstrated a better understanding of the need for funds to run political campaigns. Eleven per cent of the graduates gave this reason in contrast to one per cent of the nontakers.

Club-joining soared

Membership in political clubs and similar organizations also showed a sharp rise among those taking the course, going from seven per cent in 1956 to 26 per cent in 1960. Membership of nontakers rose only from four to six per cent.

Continuing interest in politics is indicated by the fact that 80 per cent of those who belonged to organizations in 1960 have retained their membership.

After taking the course, Monsanto employes began doing more work for their political party. Nontakers also increased their political work, but to a lesser degree.

Another Monsanto graduate, Stewart O. Morrison, of the Purchasing and Traffic Department, says: "I found that everyone has an important part in the political life of a community and learned what I could do to become active."

Graduates' attendance at political meetings, rallies and other campaign events showed a significant rise after they completed the course. Fifty per cent went to such meetings in 1960 compared with 30 per cent in 1956. Attendance by nontakers also increased, but only from 26 to 30 per cent.

Twice as many action course graduates did election-day chores as nontakers. Thirty-six per cent took on such jobs as driving voters to the polls, telephoning, passing out campaign literature, and working at the polls as judges, poll watchers, or in some other capacity. Only 18 per cent of the nontakers

participated. Studies by other corporations show similar results:

Graduates of the course at Armstrong Cork Company increased their active participation in political activities from 20 per cent before taking the course to 65 per cent after.

"I realized that I had been leaving the management of a very important business of my own to be done by someone I didn't even know," William Sharpless, a foreman at Armstrong Cork, says.

Ford Motor Company graduates working actively for their party organizations rose from 16 before to 30 per cent after taking the course. Contributors to political parties increased from 38 before to 59 per cent after, and party members from 65 to 85 per cent.

Vaughn S. Garrison, a Ford manager, says that he learned a basic principle:

"All individuals in a democracy should be interested in politics because it is through the present political system that we can exert the influence necessary to preserve a democracy."

Active participation in politics of Caterpillar Tractor Company employes who took the course climbed from 26 to 67 per cent.

"These workshops made politics a very personal thing," according to Dave Dunniway, of Caterpiller Tractor's auditing department. "In fact, I accepted my party's nomination for office in my township."

Eighteen per cent of American Can Company graduates took an active political role for the first time after taking the course.

Nancy Sealy, one of the company's stenographers, says: "The course stimulated me to the point that I joined the county G.O.P. headquarters."

A final comment on interest in political action courses was given by Monsanto employes who had not yet taken the course. Asked if they would like to sign up for the next one, 73 per cent said "yes." **END**

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PERSONAL OUTLOOK

Invest a few dollars for your wife

Would you want your wife to become a second-class relative?

That could happen in some states.

Only a heart beat—yours—stands between her being taken care of according to your wishes or taking a second-row seat.

Situation in one state is this:

If you die without leaving a will, the law provides that your children come first.

They will share two thirds of your estate.

Your widow gets the other third.

This could mean she'd lose a joint bank account to which she has contributed.

Same goes for investments, personal and other property.

New law changed the rules.

Under the old law your widow would have ranked fourth, following division of your estate among children, your parents and your brothers and sisters.

Another important thing for you to remember is that, in cases without wills, the court usually appoints a public executor who subsequently is awarded a percentage of your estate for his services.

This reduces the funds for your family.

Legal ensnarlments also can snafu your widow's best efforts in handling the money awarded to minor children.

What's true about wills—and having none—in a state where you once lived may not be true in any other.

But, whatever your situation, you can avoid trouble for your widow and family by providing them with an up-to-date will.

Attorneys usually charge only a small fee for bringing your will up to date with all new laws applying in your location.

Companion will—stating your wife's wishes—also can be just as important to you as your will is to her.

Here's a useful tip:

Keep your voting residence in the state where you live.

If you own property and maintain a voting residence in another state, your family may be required to pay inheritance taxes in both locations. This is a point worth looking into.

Hidden bargains

The usefulness is changing for some long-accepted guidelines for selection of common stock investments.

As one of 15 million Americans who share in the ownership of business, you can sharpen your investment vision by noting the emergence of some guidelines into new importance while others appear to be falling into disfavor.

Example: Many investors have long considered it good practice to look closely at the ratio of stock prices to earnings.

With this formula you can decide for yourself which stocks are high priced and which can be bought at bargain rates.

That's the way this formula has been used for years.

But now this rule of thumb may be going out of style—for good. Its popularity is fading

although you can still get an argument on its merits.

According to a growing number of investment advisers, heavy reliance on the price-earnings ratio can lead almost as readily to poor selections as it can to good stocks.

For your personal planning you'll want to know how its usefulness is shifting.

Formula works this way:

Earnings of a company equal $2 a share. Stock is selling for $40. That's 20 times earnings.

You might consider this stock fairly priced in today's market since the average for 30 key industrial stocks ranges between 20 and 23 times earnings.

If the stock with $2 earnings is selling for $20 the ratio is 10 to one. A price of $60 would mean a 30 to one ratio.

(Note: Price-earnings ratio for many years averaged 10 to one. Many investors continue to use this ratio as standard.)

A low price-earnings ratio has identified stocks normally considered as underpriced while stocks selling at a high ratio would be considered overpriced.

Trouble is that the formula isn't working out that way.

Under this well established rule of thumb, many investors have done well in the past.

But the situation is changing and the rule may no longer be counted reliable.

Many investment bargains may lie hidden beneath today's deceptively high price-earnings ratio.

This, of course, is not to say that historical standards are not meaningful. They are. The important thing to remember is that old standards for ratios are changing. Analysts for the most part attribute this at least partly to the fact that a great many uninformed investors are charging into the market with large sums of cash and their own ideas about what stocks to buy—thus driving prices out of line with historical patterns.

Thus some poor investments become overpriced—and so do many good stocks.

Other good investments are left with low price-earnings ratios.

Advice of many stock analysts today is:

Look carefully at price-earning ratios. But don't put all your faith in this guideline.

Not all old guidelines are changing.

One's this: There really is no substitute for knowledge about a company's operations—which you can learn through personal study of company reports and analysis of the messages from chief corporate officers to shareholders. These usually reflect management's attitudes about future earnings of the firm.

And future earnings—in the final analysis—are what make the stock more valuable.

How to buy a new car

Planning to buy a new car for your family?

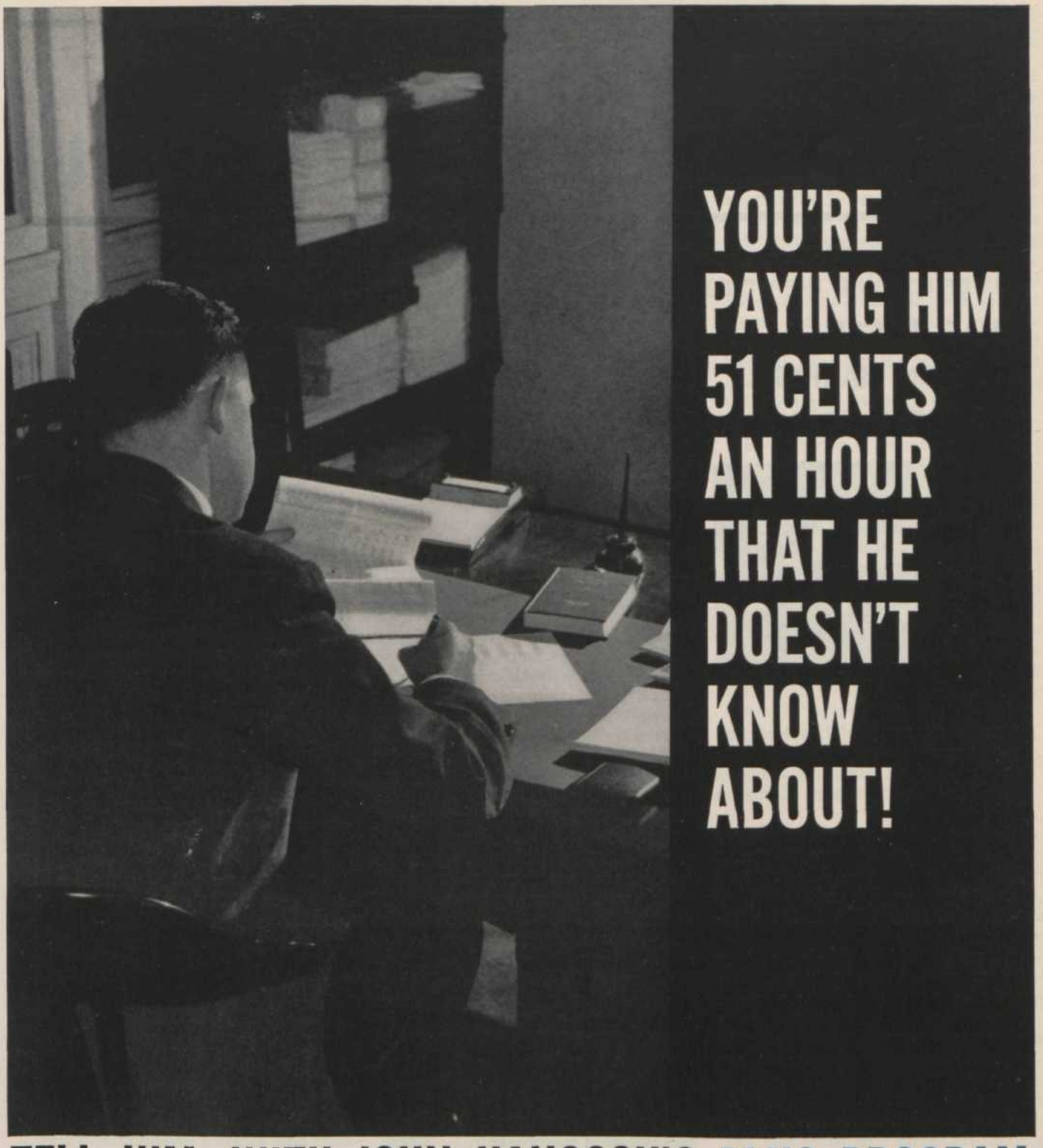
Many Americans are.

Auto industry expects to make and sell an estimated 20 per cent more cars in the year ahead.

Here's a useful suggestion:

If you want reliable information about the cost of auto operation and upkeep, ask the comptroller of your company.

He can tell you what experience the firm is having with company cars.



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*Figures from recent management report by Nation's Business.

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PREPARED EXCLUSIVELY FOR READERS OF NATION'S BUSINESS BY THE ECONOMIST INTELLIGENCE UNIT OF LONDON, THE WORLD'S LARGEST PRIVATE ECONOMIC REPORTING ORGANIZATION

WHAT BIGGER COMMON MARKET WILL MEAN TO U.S.



PIX

WHATEVER LINE of business you are in, you are certain to feel the impact of Great Britain's decision to join the European Common Market.

When Britain becomes a member of the Market—and if Denmark, Norway and Ireland also join, as now planned—a powerful trading complex of almost 240 million people will emerge.

An expanded Market—comprising 10 countries—will constitute an economic force of unprecedented scope. A customs union will ring the member countries with a single tariff wall. All direct or indirect restraints on competition in the Market will gradually be removed, and the agricultural market coordinated.

Ten countries will be as one.

The effects of this development will be far-reaching. They'll influence business decisions made all over America.

WHEN BRITAIN joins the Market it will, of course, subscribe to the customs union. As tariffs within the Common Market are lowered, competition for U. S. exporters to the United Kingdom will stiffen.

At present Common Market manufacturers are competing on equal terms with American firms doing export business in Britain, but eventually European goods will enjoy tariff-free entry. On the other hand, British duties on U. S. goods will in general be reduced to conform with the Common Market's external tariffs.

TAKE A CLOSER LOOK and you see how an expanded Common Market will change the conditions under which U. S. companies do business in Europe.

Among the principal items America sells to Britain are grains and tobacco—together worth nearly 15 per cent of total U. S. exports to Britain ($1.4 billion last year). These items will both be vulnerable if present CM policies on agriculture and tobacco are maintained.

Over-all duties, however, probably will be 20 to 25 per cent below the present level. Moreover, the same rates will apply to commonwealth countries. Hence, the United States will compete on equal terms with such British sister states as Canada.

Britain's market for American manufactures also should tend to expand more quickly after the United Kingdom moves into Common Market membership.

Summing up: Despite keener competition for American sellers in Britain as a result of U. K. entry into the Common Market, U. S. exports can be expected to continue to grow, especially in the early years, as British industry buys U. S.-made capital equipment it needs to modernize and expand to meet the Common Market challenge.

Over the longer run, the outlook for American firms selling to Britain may be somewhat less favorable as its CM partners gain preference.

HERE'S A MEASURE of the vitality and importance of a growing Common Market:

In the first three years of the Market, inter-six trade (West Germany, France, Italy, Holland, Belgium and Luxembourg) increased more than 40 per cent. This has meant rapid rises in industrial output in the area, even at a time when recession was slowing progress in America and Britain.

Another yardstick: America's domestic market is its 185 million population.

The European Economic Community—longhand for the Common Market—already is a family of 170 million people with rising incomes, rising wants, advancing industrial capacity, growing marketing sophistication.

EXPERIENCE OF U. S. EXPORTERS to the Common Market so far has been encouraging but this has been under boom conditions.

The total value of sales to CM countries in 1960, almost $3.4 billion, was 42 per cent higher than in '58—a better year than '59.

Sales of metals and metal manufactures, including vehicles, grew by 75 per cent over the same period. So, although U. S. manufacturers are already selling against prefer-



ential tariffs for CM suppliers, there are gains to be made. In part these successes were due to limited capacity in German industry, especially to make machine tools to meet the demand arising from European plant expansion.

In the long term, however, the customs union and internal free trade will make their mark. By 1970 there will be an external duty varying from three to 10 per cent on U. S. exports of machine tools. This is not insuperable, so that, in times of high European demand, U. S. sales may hold up well, but in periods of economic slackness U. S. firms will find the market difficult.

But there is the strong possibility that the Common Market may become more liberally disposed on tariffs.

It has already agreed to reduce tariffs on industrial goods by 20 per cent, and reciprocal measures are now being discussed by the United States in the General Agreement on Tariffs and Trade.

Some further relaxation of external tariffs on industrial goods may be made later as compensation for the protectionist character of the agricultural policy, which will almost certainly reduce the sale of U. S. foodstuffs in Europe. Any cuts in the CM tariffs will, however, depend upon reciprocal concessions from the United States.

THE COMMON MARKET will not only have repercussions in Europe, but will affect the present total pattern of world trade. Already manufacturers in Common Market countries are competing with U. S. exporters in many parts of the world. The development of Europe will certainly improve the capacity of many CM and British industries so that they will become increasingly competitive in price and quality.

Some world markets may break down into regional markets on a Common Market pattern. The creation of a Latin American Free Trade Area is an example. The LAFTA will be beneficial to U. S. exporters in the next 10 or 20 years, as the need for capital equipment increases with the development of industries. Higher earnings should improve the market for consumer goods. Another side effect of present CM policy, in so far as it is tending to favor the import of various products from Africa at the expense of Latin America, may be to make certain South American countries more dependent on the United States.

DIVERSIFICATION also may occur in two other major areas. In Australasia, the preferences Australia and New Zealand now grant to British goods will almost certainly disappear.

Since both countries expect some drop in their export earnings in Europe as a result of British membership in the Common Market, both will attempt to push sales to the United States. If they succeed these countries should be ready buyers of U. S. goods.

In Africa, if the present close association of ex-French colonies with the CM is extended to the commonwealth countries, nearly the whole continent will be linked with the Common Market. Almost certainly this will lead to a European-oriented trade policy. By the end of the 1960's U. S. participation in aid could, however, alter the situation.

Over-all, the pattern seems to be shaping into spheres of influence. The U. S. may do best in the American continent, North and South, in the Pacific and in the Middle East.

BRIGHT MARKETS BECKON IN OIL-RICH MIDDLE EAST



PIX

THE MIDDLE EAST—broadly the area from Libya to the Persian Gulf, from Iran to the Sudan—presents golden opportunities to American business.

Here is an awakening population of 80 million, many of whom have moved into modernity since World War II. Today their demand is for western-style manufactured goods, which only a limited number of local industries can produce.

Every country is hungry for the items of which American technology is the supreme producer. Most can laugh off a huge import bill; $1.4 billion was paid last year as oil revenues to the producer states around the Persian Gulf, where lie 60 per cent of the world's proven petroleum reserves. Kuwait, half the size of Maryland, has double the reserves of the United States, and Saudi Arabia and Iran each exceed them. Many countries, notably Libya, Iraq, Iran, Saudi Arabia and Kuwait, benefit also from big local spending by oil companies while Lebanon gets much of the oil prosperity overspill.

U. S. goods dominate the market in Saudi Arabia, have led the field for the past two years in Kuwait, and may take the lead this year in other Gulf states and Jordan. American automobiles come nearest to the Arab ideal of a vehicle which will waft ten people over a pot-holed desert at 80 miles per hour and never require servicing; American air-conditioners and refrigerators are supreme in the burning summers; American design and technique are generally approved.

YET THERE IS a long way to go. The West Germans and Japanese are ousting the Anglo-Saxons in many places. Rightly or wrongly, British businessmen depend on their long-standing contacts; too often the American sales representative prefers the Beirut cabarets to the discomforts of stumping the Persian Gulf bazaars.

A hundred American firms have their regional headquarters in Beirut; not all their agents get out to Doha, Qatar's capital; Abu Dhabi (a coming spot) or Dubai or Muscat. Few parallel Peking—which has even held a trade exhibition in Yemen.

Not everyone even visits Qasim-threatened Kuwait, though it is probably the largest market for American goods in the Middle East. This oil-rich sheikdom's imports in 1959 totaled $260 million, the same as sophisticated Lebanon and more than the $176 million of 20-times-larger Syria. They ran at more than $1,000 per capita against $27 in Iran and $43 in Iraq.

There are still big opportunities. One lies in ordinary commer-

WORLD BUSINESS: HOW IT AFFECTS YOU

continued

cial trade in consumer goods in which, with enterprise and push, any American firm could sweep the Middle East—since American goods are already selling on quality all over the area with a minimum of promotional activity and some price disadvantage.

Both these qualifications are important: Many Arab areas are basically price, rather than quality, markets. Every effort should be made to get prices down to competitive levels, after thorough investigation of rival presentations on the spot. And, always, personal visits are better than samples, and samples and good after-sales service better than letters; quick and polite replies to queries count in lands where there is still a strong overlay of flowery, if meaningless, courtesy. Attempts to outsmart the Arab or Iranian merchant (whose ancestors have been playing this game for 15 centuries) never pay; but straight aggressive salesmanship is understood and appreciated—as are packing and advertising matter in Arabic or Farsi. Some items—air conditioning and refrigerating equipment, especially—sell themselves. If American goods are doing well in the Middle East, this means they can do better.



THERE ARE TWO special points:

First, a local agent in the Middle East must be carefully selected. Some agents take on so many agencies, often competitive, that they can do little to further the interests of any one. Some, especially in Saudi Arabia, have no distribution network, no outlet beyond their single shop. They must often be trained in promotion practices and often visited.

Second, it sometimes pays to go into manufacturing or assembly in partnership with local enterprise. Coca-Cola and Pepsi-Cola are prime examples in this region, but many other U. S. firms are doing the same, especially in Iran.

Finally, there is a big demand for capital goods. Several Middle East governments are engaged in major spending on development programs. The mushrooming construction of Kuwait is well known and Iran's Seven-Year Plan has had much American participation. But the United States plays a much smaller part in the present Iraqi provisional development plan budgeted at $1.1 billion in 1959/60-1962/63 but soon to be replaced by a five-year successor involving $1.2 billion on government account alone.

AFRICA: OPPORTUNITY AMID TARIFF WALLS

WHILE TARIFFS on inter-European trade are falling, some underdeveloped countries still are too immature economically to face freer trade.

West Africa is an example. The former British and French territories depend heavily on customs receipts for government revenue, and with the terms of trade turning against them the yield from export duties has dropped. At the same time former trade surpluses have turned to deficits. To right the balance, import duties have been raised.

But some protective duties, too, are now needed. The larger countries are industrializing and, until it has established itself, home industry needs the dice loaded in its favor in the domestic market. From the foreign supplier's point of view there is, however, a bright side to the picture: Ghana and Nigeria and many of the ex-French states give generous tax concessions to new industries, including the remission of import duties on capital equipment and raw materials.



THE WEIGHT OF DUTIES will fall only on a fairly limited range of goods. Machinery to make these goods must still be imported. The first notable protective import duties in Nigeria were levied early in 1959 on textiles, an industry which had already shown signs of excellent growth possibilities. Since then it has expanded so successfully that its protection was only marginally increased in the major wave of protective duty impositions in December 1960. The latter, which affected a wide range of goods, was on the whole directly linked to current industrial projects.

A flour mill is about to be built, so a 15 per cent import duty was laid on flour. A sugar scheme has long been planned, so a duty was laid on sugar. In July 1961 it was announced that work on the plan would go ahead.

The new or increased duties on gas and diesel oil, household utensils, cement, packing materials, bicycles and beer also can be related to new industries or to industries being negotiated at the time, as can the April 1960 increase in the duty on corrugated roofing materials and removal of the duty on pigments for paints. The motor-tire, asbestos, cement and glassworks projects announced this year are also likely to benefit from customs protection.

THE PROCESS HAS NOT yet gone so far in Ghana. It began on a noticeable scale in July 1960 with protective duties on textiles, matches,

furniture and aluminum and other metal sheets. Only textiles was not already a proper infant industry; protection has so far attracted only one textile project. The large increases in duties this July are primarily designed to raise revenue but the protective element was quite strong. New and increased duties on mineral fuels, sugar, shoes and electric light bulbs are linked to projects about to be undertaken.

It is difficult to judge what effect the protection of industry will have on imports. The great expansion of industry in Nigeria is swelling demand for machinery and transport equipment and, through the effect on incomes, is indirectly raising demand for manufactured consumer goods, most of which are still imported. In the most rapidly growing sectors of industry new domestic production is hardly affecting imports at all.

As yet, however, protection is not great, duties being in general around 20 per cent ad valorem. There is considerable room for extension of the system. Many firms from many countries now are taking the opportunities still open and establishing themselves in West Africa, particularly in Nigeria with its relatively large market.

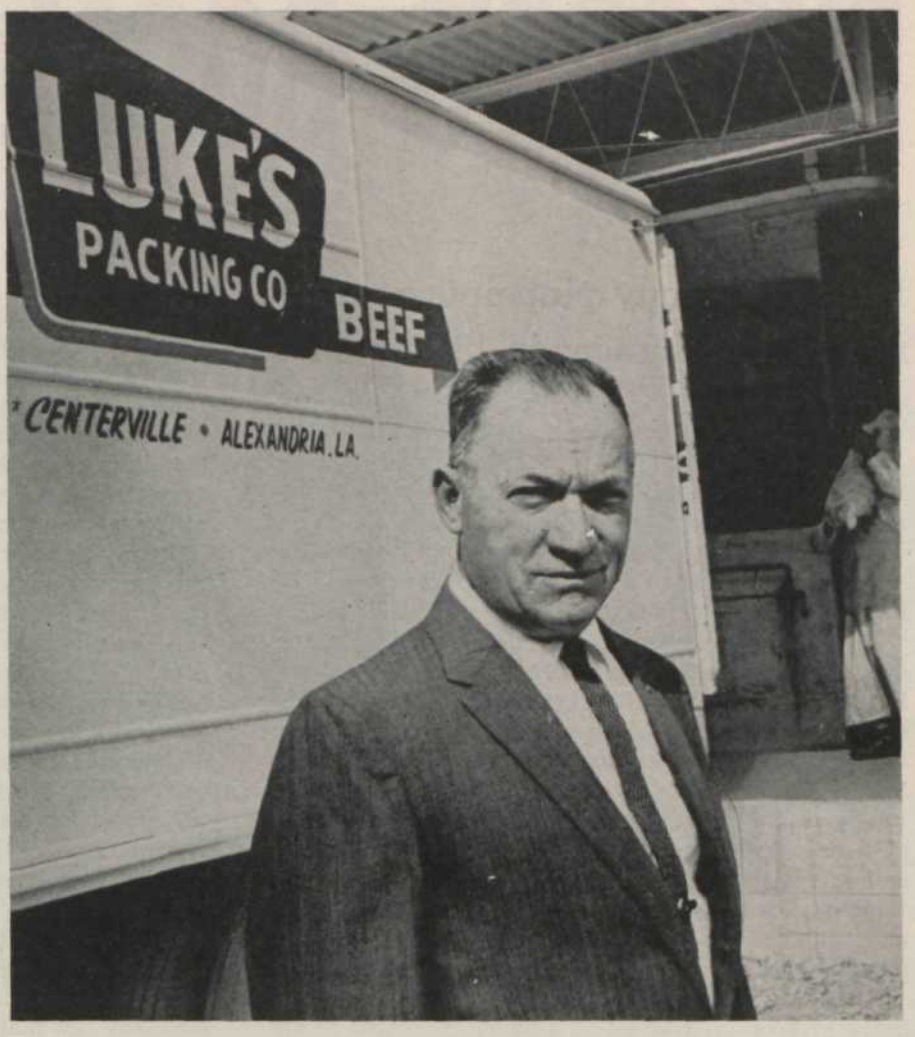
Among U. S. firms in, or entering, Nigeria are the Chase Manhattan Bank and its investment subsidiary, the Southern Star Shipping Co., and the Amkor Corporation—in Ghana, Kaiser and its partners in the aluminum project.

THE SITUATION is different in the ex-French countries. Here both customs and fiscal import duties are levied, French products being exempted from the customs duty, which is also gradually being reduced to nil on goods from other countries of the Common Market.

Industry-protecting duties are not yet used, but the countries, as associated territories of the EEC, are allowed to raise customs duties against EEC products, provided the duties are equal for all members' goods. This is likely to happen soon.

As yet industry in these countries has been almost entirely a French affair, but other EEC investment is increasing and there is still considerable opportunity for American industries to enter before the trading and industrial links with the EEC become too strong. **END**

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EUROPE'S BOOM: MADE

Five-year study pinpoints reasons for coming changes in 18 countries

WESTERN EUROPE'S ECONOMY is being steadily Americanized.

This change has important future implications for Americans as well as Europeans. Its effects will be felt whether Europe's trading blocs succeed or fail.

In a sense the changes now occurring in Europe occurred a generation ago in the United States. Americans find a striking similarity between the economic developments in Europe since World War II and those taking place in our own country in the decade after World War I.

One of the most significant features of Europe's postwar recovery has been the sharp and sustained rise in average output per worker and per man-hour. Large productivity gains were to be expected with the restoration of war-damaged facilities in the immediate postwar years. However, even after 1950, when recovery was complete in most countries, labor productivity in Western Europe as a whole increased at an average rate of three to four per cent a year—a rate 50 per cent higher than average American gains during the same period.

Many influences have contributed to the rise in productivity. One has been the heavy program of investment in new machines and the expansion of industrial plant. Changing attitudes toward work, education, and training in new skills and techniques have played a part, along with better management practices in industry and agriculture.

Government policies affecting economic enterprise have also been an important influence. The Common Market, especially in its enlarged form, will have a strong effect from now on because trade barriers will soon be cut substantially. Apart from these influences, there has been a steady rise in wage rates and a leveling of sharp differences in income which give today's markets greater social depth.

It would be a gross exaggeration to say that Europe has become a classless society, but unquestionably heavy income taxes at the top and social security at the bottom have radically changed the shape of the income pyramid.

Wages have risen faster than other incomes or the cost of living and full employment has prevailed. This trend in the distribution of income and purchasing power is bringing a change in consumer attitudes toward a middle-class point of view.

In spite of its spectacular growth, however, the level of productivity in Western Europe still remains substantially below that of Canada and the United States, even though postwar gains have narrowed the gap. A conservative estimate is that average labor productivity in the advanced industrial countries—such as Switzerland and Sweden—is about 60 per cent that of the United States. In such underdeveloped countries as Greece and Portugal, it is little more than 20 per cent.

The growing shortage and rising cost of many domestically produced industrial raw materials is undoubtedly one factor accounting for Europe's lower productivity levels.

Europe is becoming increasingly a have-not region so far as most of the essential raw materials of modern industry are concerned. This is due to a complete absence of some raw materials, though more commonly, as for coal and iron ore, domestic reserves are plentiful but foreign supplies cost less. In either case, European countries face the prospect of rising costs for many raw materials and the necessity of investing in facilities for the extraction and transportation of materials from newly developed resources overseas.

This means that, in the future, Western Europe must import raw materials, food and simpler manufactures and export products of its own advanced technology. In so doing, and in supplying the world with such services as banking and insurance, Europe will be making the most effective use of its most valuable resource: skilled and educated manpower.

Ineffective use of manpower by large segments of the European economy has slowed productivity further. A disproportionately large share of Europe's labor force is still engaged in producing food. Fortunately, the distribution of the labor force is improving as workers shift from farming into more productive activities. Labor productivity in agriculture has also been increasing rapidly.

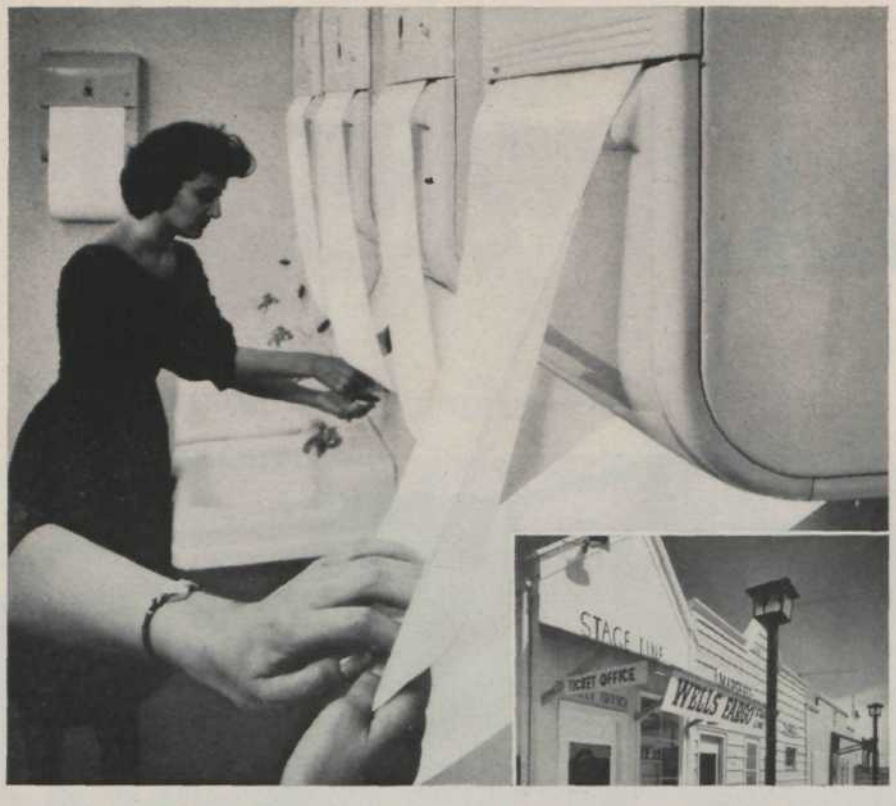
Even larger gains would be possible if greater progress could be made in overcoming such man-made

Widespread prosperity resulting from Europe's growing adoption of American-style industrial techniques makes possible this American-style traffic jam on Rome's glamorous Via Veneto

IN U.S.A.



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EUROPE'S BOOM

continued

deterrents to higher productivity as excessive fragmentation of farm holdings and government subsidization of uneconomic crops.

Government policy in supporting small business is also preserving a multitude of family artisan establishments and retail shops. Here again, in spite of political resistance, the trend is toward larger and more efficient establishments.

However, labor productivity and economic efficiency may not always be regarded as the most important considerations.

Many thoughtful European statesmen believe national self-sufficiency in food production, preservation of a multitude of little capitalists and an independent (and politically conservative) farm population to be the best means of maintaining internal social stability and avoiding the collectivist threat.

Labor restrictions and featherbedding restrict productivity even further. Often the European worker regards the employer's efforts to raise productivity by introducing better machines and methods as designed to increase profits at the expense of both consumer and worker. Often, in the past, he has been right.

Western Europe's capitalism reflects the nature of Europe's social organization; it represents a continuation into the modern industrial era of a system of ownership and privilege established on a traditional aristocratic base. The owner-manager of the old-fashioned enterprise regards himself, and is regarded by his employes, as a member of a high social order to which the worker can rarely aspire.

The generalizations about the nature of European capitalism and the attitudes of European workers, of course, are subject to many qualifications. Conditions vary widely.

Moreover, the nature of European capitalism has been changing and there is reason to expect a resulting betterment of employer-employe

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This article is adapted from "Europe's Needs and Resources," a 1,200-page study of trends and prospects in 18 countries just released by the Twentieth Century Fund after five years of work by a research team headed by Dr. J. Frederic Dewhurst, John O. Coppock and P. Lamartine Yates, in which many European specialists also participated.



She may get the message here, but...



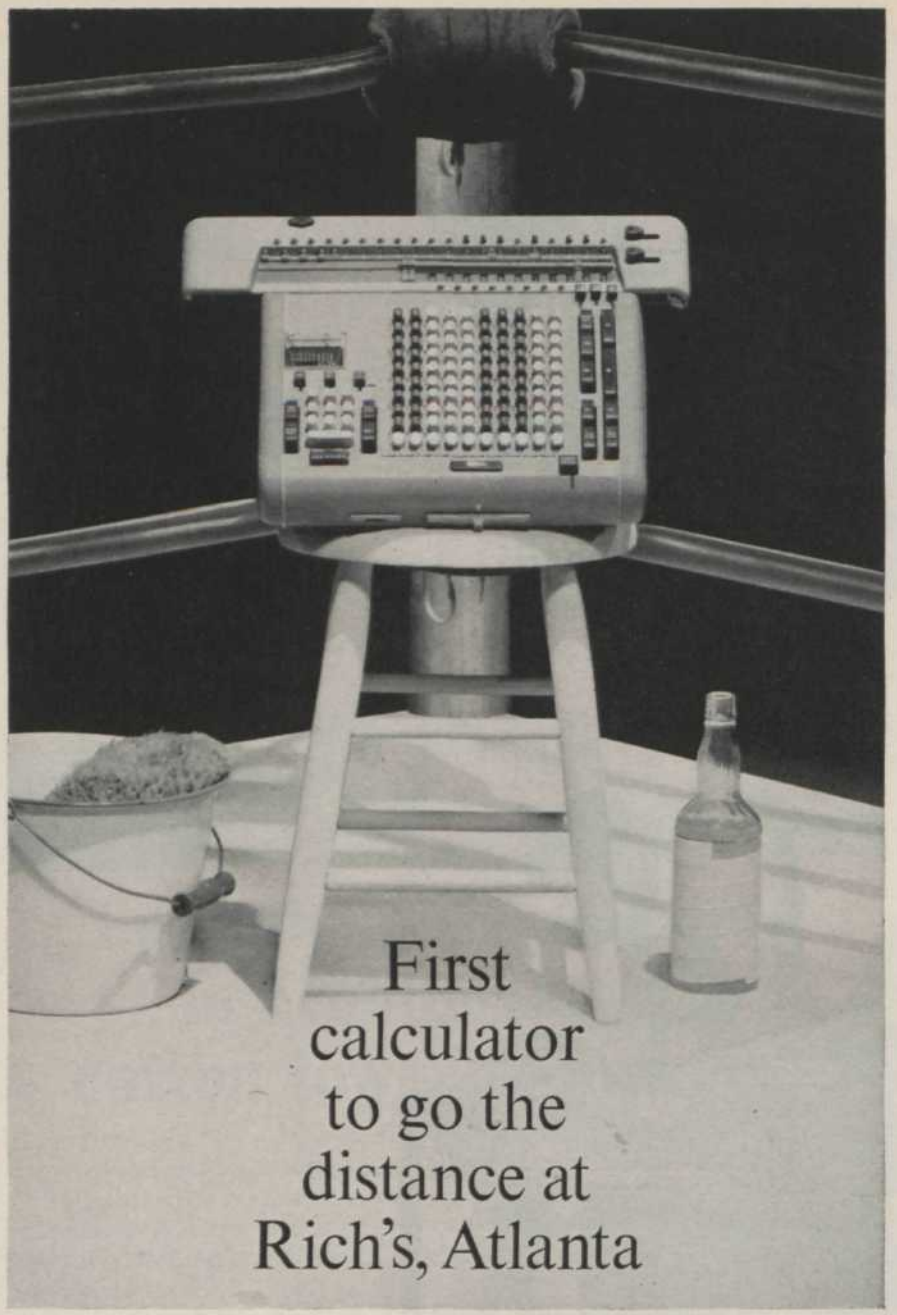
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EUROPE'S BOOM

continued

relations. Managerial capitalism dominated by large but widely owned and professionally managed corporations is supplanting owner-capitalism. These large concerns, engaged in mass production and distribution of a wide range of standardized products, compete more vigorously than the small but obedient members of the typical European cartel.

The career manager does not consider producing the largest possible immediate profits and dividends for the owners his only responsibility. His primary concern is the successful existence of the enterprise over the long run. This means he must attempt to satisfy the interests of consumers in lower prices and better quality goods, of workers in higher wages and improved working conditions and of the owners in a higher return on their investment.

To the extent that these efforts are successful they will raise efficiency and productivity.

Better understanding of the necessities of modern industry might also help to modify other deep-seated worker attitudes and practices. For example, if the strong resistance to night work could be overcome, European industries could achieve important economies by operating two or three shifts. More continuous use of machinery would also result from shortening the long noonday shutdown and introducing shorter and staggered lunch periods—a change already occurring in the larger cities.

Organization of labor along the traditional craft lines inherited from the Middle Ages is a serious disadvantage in many countries. New methods of vocational training are beginning to replace apprenticeship in the more advanced industrial regions, and these trends can be expected to continue as mass production continues to displace handicraft and custom manufacture.

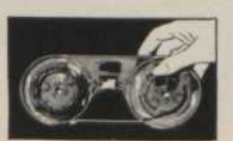
Government intervention in the European economies often has tended to support the restrictionist practices of labor and business organizations and to dampen the vigor of competition. Through such measures as differential taxation, price- and wage-fixing, and licensing of entry into business and occupations, small enterprises are protected against competition from larger and more efficient ones, old and declining industries are defended against their newer rivals and those already



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TAXES PAID DIRECTLY BY BUSINESS–

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50 State Average	18.28%
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One of the most promising benefits a manufacturer enjoys in moving to Florida is the favorable tax structure. There are no state or local income taxes . . . no state ad valorem tax on personal or tangible property . . . and no state inheritance tax. In many cases there are specific tax benefits for individual industries.

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Contact the Florida Development Commission. We have complete files of industrial classifications, showing exactly what supporting industry is needed in Florida. We will be able to tell you within 24 hours what companies require your type of manufacturing and service facilities. On your request, a highly trained and well informed industrialist will visit you. He will bring a complete report written specifically for your company. This report will show you the general costs for establishing your type of business in each of several Florida areas . . . the locations of your sources of supply . . . whom you do business with when you get here. All contacts with the Florida Development Commission are strictly confidential.



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Farris Bryant
Governor

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Florida

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FLORIDA DEVELOPMENT COMMISSION
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EUROPE'S BOOM

continued

established in various crafts or lines of trade are able to keep others out.

In Europe, control of prices and markets through cartel arrangements between competitors has long been looked on as normal. Labor has often regarded monopolies and cartels as providing job stability and constituting a logical step in an evolutionary progress of capitalism toward socialism. Consumers have always been more aware of their interests as producers earning wages and salaries than as consumers spending them. Government policy has reflected the views of the voters.

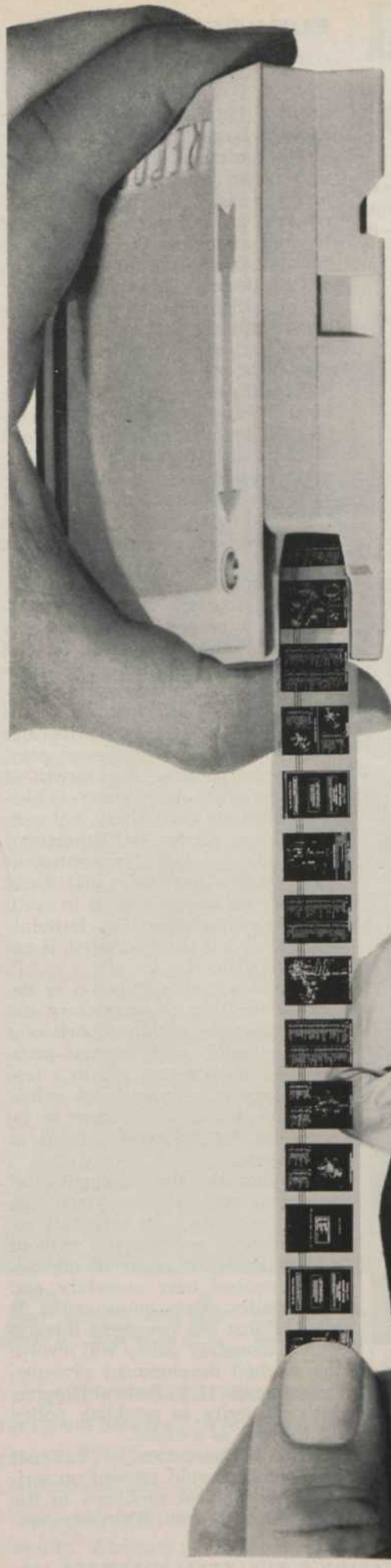
Hopeful signs

Whether these attitudes and policies are changing sufficiently to promote a vigorous competitive economy in Europe is still uncertain, but some encouraging developments point in that direction. Germany's spectacular recovery under what has been described as the "socially conscious free-market economy" has demonstrated the success with which individual initiative responds to adequate incentives.

In the United Kingdom the passage of the Restrictive Practices Act and establishment of the Monopolies Commission signal a revolutionary change in the British attitude toward practices designed to eliminate or restrict competition. Even in France, a stronghold of cartels, recent legislation forbids resale price maintenance, which is the most effective means of enforcing price-fixing by cartels. The treaty establishing the Common Market, or European Economic Community, forbids "concerted practices which prevent, restrict or distort competition," though leaving a loophole for agreements that will improve production or distribution or promote economic or technical progress.

More important than these specific provisions, however, is the fact that the larger market resulting from the elimination of trade barriers will make it much more difficult to maintain private monopolies and agreements to restrain competition.

Consumers also are playing a more significant role in the changing European economy. Perhaps the most important change results from the rise of per capita incomes to the highest levels ever attained. Together with increasing urbanization and widespread social security, this is creating a mass demand for many products, such as automobiles,



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EUROPE'S BOOM
continued

hitherto beyond the reach of the average family.

The continued drift of population into urban occupations and communities is lessening traditional conservative influences on habits of buying, changing the attitude of consumers toward the satisfaction of their desires. This change reflects not only higher incomes and greater leisure but the influence of advertising, better merchandising and the time-payment method.

Thus Western Europe has rebuilt its economy to a position of unprecedented strength, raised its standard of living to the highest level ever achieved and successfully overcome exchange problems and liberalized trade and payments to a degree that was thought impossible ten years earlier.

It would be a mistake to assume, however, that the problem of controlling or preventing inflation has been permanently solved. On the contrary, with governments committed to maintaining full employment, with less than fullblown competition between enterprises and with labor unions exercising near-monopoly powers, the threat of creeping inflation—or worse—is likely to continue indefinitely, not only in Western Europe but throughout the western world. The control of inflation by monetary and fiscal measures in such a way as to avoid economic stagnation, as Britain's experience has demonstrated, is extremely difficult.

Moreover, either inflation or deflation resulting from monetary and fiscal measures within a particular country could create serious problems for its partners within a free trade grouping—to such an extent that free trade might have to be sacrificed for full employment or vice versa.

Whether the dual objectives of free trade and full employment can be attained merely by voluntary coordination of policies and without a considerable measure of international control over monetary and fiscal policy seems questionable. It may be that the necessary integration of monetary policy will involve the gradual development of something like the U. S. Federal Reserve, with authority to establish policy for the area as a whole.

Such a delegation of national sovereignty should present no serious philosophical problems to the founders of the EEC. It already com-



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"Same thing is true when you're speeding along the road of business progress. Sure you want to reach your goals as fast as possible . . . and take the quickest and straightest route.

"But problems, frustrations and tensions can build up. That's when it will pay you to check in with your own professional or trade association.

"From their vast resources about your field of business they can help you map out the best route to greater earnings and profits. They can furnish refreshing ideas on better ways to operate. And, with other members of your association, you can compare and gauge your own progress.

"Looking for food and fuel to keep your business moving ahead in high gear? Your voluntary association will furnish it gladly, and give you a fresh start on your journey."



Pete Progress
Speaking for progress through voluntary organizations

mits its members to a close integration of their economies.

If all-inclusive economic integration of Western Europe is ever to be achieved, special consideration will be needed for the less industrialized countries, including those that are not at present members of either the Common Market or the European Free Trade Association. Every country in Europe has scattered areas of underdevelopment, but in Greece, Portugal, Spain and Southern Italy, and to a smaller extent in Ireland, industrial backwardness is widespread.

Taken as a group, the 67 million people living in southern Italy and the three other Mediterranean countries have a per capita purchasing power barely half that of Western Europeans as a whole and little more than a third that of the residents of the more prosperous countries. There is a heavy and persistent surplus of labor in these countries, but this potentially valuable resource is of inferior quality because of illiteracy and low educational standards.

A considerable volume of overseas emigration can be expected in the future. It is estimated that the four Mediterranean countries will lose from 3.5 to four million persons between 1955 and 1970 through emigration. The bulk of the emigrants will go overseas, chiefly to Latin America, but a considerable flow, primarily from Italy, will move into France and other northern countries. Ireland will also continue to lose population and there will continue to be a movement of seasonal labor across national boundaries, especially in southern Europe.

Most of the industrial countries, however, have severe restrictions on the entrance of foreign workers and especially strong resistance to immigration from the south. There is little prospect that the movement from the south either to overseas destinations or to other parts of Europe will be of sufficent volume to solve the problems of overpopulation and unemployment in the underdeveloped countries.

The best prospect of raising the standard of living in these areas is through increases in productivity. This means not only improving agricultural practices but introducing and developing manufacturing industries.

Industrial development will require heavy public investment to

provide the basic facilities without which private investment can hardly be expected.

Foreign trade

Western Europe's future position as an importer and processor of raw materials and an exporter of fabricated products is revealed by the amount and composition of its foreign trade today. When intra-European trade is excluded, 80 per cent of Western Europe's total imports are primary products and only 20 per cent manufactures, while for exports the percentages are almost exactly reversed. This contrast may be expected to become even more pronounced.

Intra-Western European trade, which now accounts for more than half of all European foreign trade, will probably increase more rapidly between 1955 and 1970 than trade with the rest of the world. It is difficult to make any kind of estimate, however, as there is no precedent to suggest how important the removal of trade barriers within and perhaps between the European Economic Community and the European Free Trade Association will be in stimulating trade between the member countries.

The relative importance of Western European countries in services, such as shipping and transportation, insurance and banking, foreign travel and earnings on foreign investments, is even greater than in merchandise trade.

In 1955 European receipts from sale of such services totaled $13 billion, or about half the world total, while the $11 billion outlay for these invisibles was 40 per cent of the world aggregate. These figures include intra-European trade, but the positive balance of these transactions was more than $2 billion—more than enough to offset the $1.6 billion negative balance on merchandise trade.

By 1970 the positive balance on services can be expected to reach about $5 billion.

If projections of trade between Western Europe and the rest of the world in 1970 prove not too wide of the mark, merchandise exports would reach some $23 billion to $24 billion and exports of invisibles about $5 billion. Imports would be about $26 billion, leaving a net income of $2 billion. A net positive balance of this magnitude will enable Western Europe to develop needed overseas sources of raw materials and to contribute to the development of the underdeveloped regions of the world. **END**



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These are the goals of the National Chamber. These are the purposes back of the National Chamber's policies and programs. These are the things which the National Chamber works day-in and day-out to accomplish:

1. *To strengthen and improve the free competitive enterprise system—and to protect the rights of management to manage.*

2. *To keep the economy dynamic and expanding—to create new job opportunities and new profit-making opportunities—and to improve the living standards of the American people.*

3. *To preserve our representative, and limited, form of government.*

4. *To solve local and national problems through voluntary, organized action, and to remove the pretexts and excuses for intervention by the federal government.*

5. *To keep the costs of government down.*

6. *To control inflation by getting rid of the causes of inflation.*

7. *To train, equip and encourage businessmen and others to be more active, more influential and more responsible citizens.*

8. *To improve education and health care through community, state and private action.*

9. *To strengthen America economically in world affairs.*

10. *To keep the country productive and strong against the threat of war.*

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SPECIAL LETTER

NATION'S BUSINESS EDITORS REPORT ON: Tax man's new policy

U. S. tax collector plans whole new approach to get more revenue from you.

Better start now to put records and tax data in shape. Revenue boss now will focus on mass of people who normally pay their taxes, rather than the few who don't.

His pitch: Painless tax extraction. Collection tools will include:

More service, more kind words, more understanding, more uniformity, more fairness, more taxpayer instruction and information, simpler forms.

But as top compliance aide puts it: "No one now can relax in the assurance his return won't be audited." Collection methods will also include:

More variety in audits, more checking of your record-keeping, more sophisticated enforcement, more automation, more requirements from taxpayers.

Kindness, yes; but firmness, too. More than 2,400 new tax extractors will swell enforcement ranks this year. Agents and auditors will increase at twice the rate revenue climbs in coming years.

Revenue Commissioner Mortimer Caplin notes less than $3 billion comes from forced assessments, delinquent accounts. Over $90 billion is from voluntary compliance. "We've got to have more voluntary paying," he insists, "and more taxpayer confidence that no one's getting favored treatment."

* * *

Problem: Complex tax laws, involved business operations make tax gathering harder. Revenuers need to dig deeper, with more expertness.

Three-pronged approach to painless extraction of larger tax take involves: quality audits, special services, electronic investigations.

Tax boss has ordered supervisers to abandon revenue-raising quotas for auditing agents. They're told: Look at returns that might be fruitful. Do a thorough job. Don't worry about number checked or revenue raised per agent. Districts now given freedom to probe returns from businesses or individuals in their locale where tax dodging is suspected. No need to follow former national guides for income brackets or sources usually fruitful.

Random samples of all taxpayers now means your return may get scrutiny even if never before checked. If taxpayer's records are found faulty on audit,

he'll get notice from district director telling him politely what's wrong with his bookkeeping; warning that revenuers will check him following year.

* * *

Agents will use high-quality central standards tailored to different industries as checklist to get more audit uniformity, fairness, higher revenue.

Internal Revenue has completed handbook for auditing insurance companies. Plans to write 60 more handbooks for other businesses. Agents get special training in understanding problems of specialized companies to get industry uniformity in deductions.

* * *

As for service, revenuers now are encouraged to meet with taxpayers groups to get better understanding and compliance. They'll work through county farm agents, for example, to help farmers set up books and records.

One district develops new loose-leaf book telling small businessmen forms they need, filing dates, other useful information.

Education program to jog memories of investors and depositors to report income from dividends and interest will get new thrust.

Internal Revenue hires new top public relations man to boost taxpayer compliance through TV telethons to answer questions, prepare movies, press stories, programs in public schools.

Commissioner Caplin plans new inspirational message to taxpayers in instruction booklets next year. English professor checks instructions for simpler language.

More meetings with accountants, business groups for mutual understanding and to see if new rulings are needed. Year around help in answering tax queries is a goal.

Careful recruiting to get top-notch revenuers.

* * *

Electronics: Automated data processing is now operating on limited scale. Soon will be used throughout nation.

Computers will process tax returns to check filing failures, spot inaccuracies, figure refunds, flag delinquent taxes from past years, match data reported on all returns to detect all income sources.

In few years computers will stop multibillion dollar revenue slippage from taxpayer ignorance, carelessness, risk-taking.

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*Based on prices in the National Automobile Dealers Association USED CAR GUIDE, recent-model Chevrolets are now bringing a higher percentage of their original price than any other full-sized car in their field.

Here are all the fleet car advantages you've come to expect from Chevrolet—plus new refinements that promise even higher return at trade-in time.* Who else in Chevrolet's field, for instance, gives you the trip-shortening comfort of Full Coil cushioning at each wheel, aided and abetted by more than 700 sound and vibration filters? Or a whopping deep-well trunk (with bumper-level loading) that lets you take on odd-shaped samples and paraphernalia you used to have to leave behind? And more, much more: oversized, wide-opening doors designed with big six-footers in mind. Roomy new Body by Fisher interiors. Standard Hi-Thrift 235 Six and Turbo-Fire 283 V8 triggered to do special things with regular gas. And, for extra long-term protection of your fleet investment, new steel front fender underskirts help put a stop to rust. *Even the mufflers are longer lived this year to help cut maintenance cost.* It will pay you to check out all the dollar-saving details at your Chevrolet dealer's first chance you get. . . . Chevrolet Division of General Motors, Detroit 2, Michigan.

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Chevy II 100 4-Door

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TAX REFORM

continued from page 41

per cent of all new plant and equipment expenditures in excess of current depreciation deductions. But the proposal would have limited the kind of investments which would qualify, the amount of investment and the industries which could benefit. It was attacked by business as a poor substitute for reform in present depreciation laws. The Administration's tax strategists considered the credit as an incentive to investment and separate from new and improved depreciation rules.

The Ways and Means Committee rewrote the tax credit plan to make it more broadly applicable and to permit credit against the federal tax on only eight per cent of the investment.

President Kennedy and his aides apparently are still for the tax credit idea. Republican members of the Ways and Means Committee are against it, arguing that it would "subject our private economy to a government controlled, on-again off-again tax incentive that would arbitrarily bestow a tax give-away upon some taxpayers and deny it to others."

Even some important Democrats on the Committee say privately that passage of the tax credit provision is unlikely unless the revenue picture appears unexpectedly favorable next year. Whether the tax credit passes or not, new rules for more liberal depreciation deductions are quite possible.

Another controversial provision of the pending tax legislation would require corporations and savings institutions to withhold taxes of 16⅔ per cent on dividends or interest payments and turn the money over to the Treasury, just as taxes on salaries and wages are withheld by employers. Quarterly refunds would be made to taxpayers whose tax liability was less than the taxes withheld.

Measures to withhold taxes on dividend and interest income have been passed three times by the House of Representatives since 1950. An extensive educational campaign by the Treasury in 1959 failed to close the gap between what is paid out to stockholders and depositors and what is reported as income on tax returns. The government says it loses more than $800 million a year this way.

However, it is far from certain that withholding will be passed next year. One key tax man in the Kennedy Administration confides: "I have no brief for withholding. It would be hard to administer, and I still hope we can collect the money through taxpayer information and education."

The Administration is planning to introduce its promised massive tax base broadening and rate-cutting plan late in the next session and hearings may be held next winter. The Ways and Means Committee has the major issues of reciprocal trade extension and medical care for the aged as well as tax matters to handle in 1962, and members will want to get home early to campaign. So there is little chance it will have time to draft the extensive reform legislation in '62.

This timing is to the businessman's advantage. Since attempts to write and enact major tax reform will be postponed until 1963—a non-election year—chances are it will be less politically flavored, and more appropriate to national needs than to luring voters.

Special report on tax collector's new policy, page 87

National needs

"We can't keep spending for both defense and nondefense at this ever-expanding rate," declares Chairman Mills of the Ways and Means unit. His sentiments are echoed by his counterpart in the Senate, Chairman Harry F. Byrd of the Finance Committee, as well as by an increasing number of congressmen.

So, Congress may find ways of trimming spending.

Should war break out, laws similar to the rapid amortization law during the Korean war may be passed quickly to permit defense and defense-related industries to write off part of the cost of expanded facilities. A broad-based excise tax could be adopted to help meet expenses.

But merely a prolonged state of high international tension as great or greater than that of the Berlin crisis could be a new stimulant to large-scale tax reform. It could help prod Congress toward broadening the tax base as a means of raising new revenues without raising rates, still at wartime highs. It could also bring reform, with rate reduction as the inducement to those who give up their differential tax treatment. The advantage of lower income tax rates would be two-fold, the tax strategists could reason: Lower rates would stimulate higher investment and spending to increase economic growth. They would become flexible enough to be raised in an emergency to provide a new rush of revenue.

Over and over in congressional tax studies high rates are attacked. One member of the Kennedy Administration told NATION'S BUSINESS: "Everybody knows the highest bracket tax rates are purely political." If the highest income bracket were set at 50 per cent of taxable income rather than the present 91 per cent, total federal tax revenue would be reduced less than one per cent.

Increasingly, lawmakers are being made aware that the challenge of U. S. tax policy is to make it more attractive for people to save and invest so capital that accelerates technological progress is formed. Some politicians, however, describe this as regressive or favoring the investor rather than the consumer.

Since our economy is based on the profit incentive, high individual and corporate rates obviously hamper the growth of business.

The Kennedy Administration, in urging enactment of a tax credit on investment, pointed out that the average age of industrial plant in America is 24 years and that of machinery, more than nine years. Treasury Secretary Douglas Dillon noted that "modernization and expansion are essential to higher productivity. Rising productivity will provide us with a rising level of per capita income with resultant and widely shared benefits in the form of rising real wages and rising investment incomes. Rising productivity will also permit us to hold prices down."

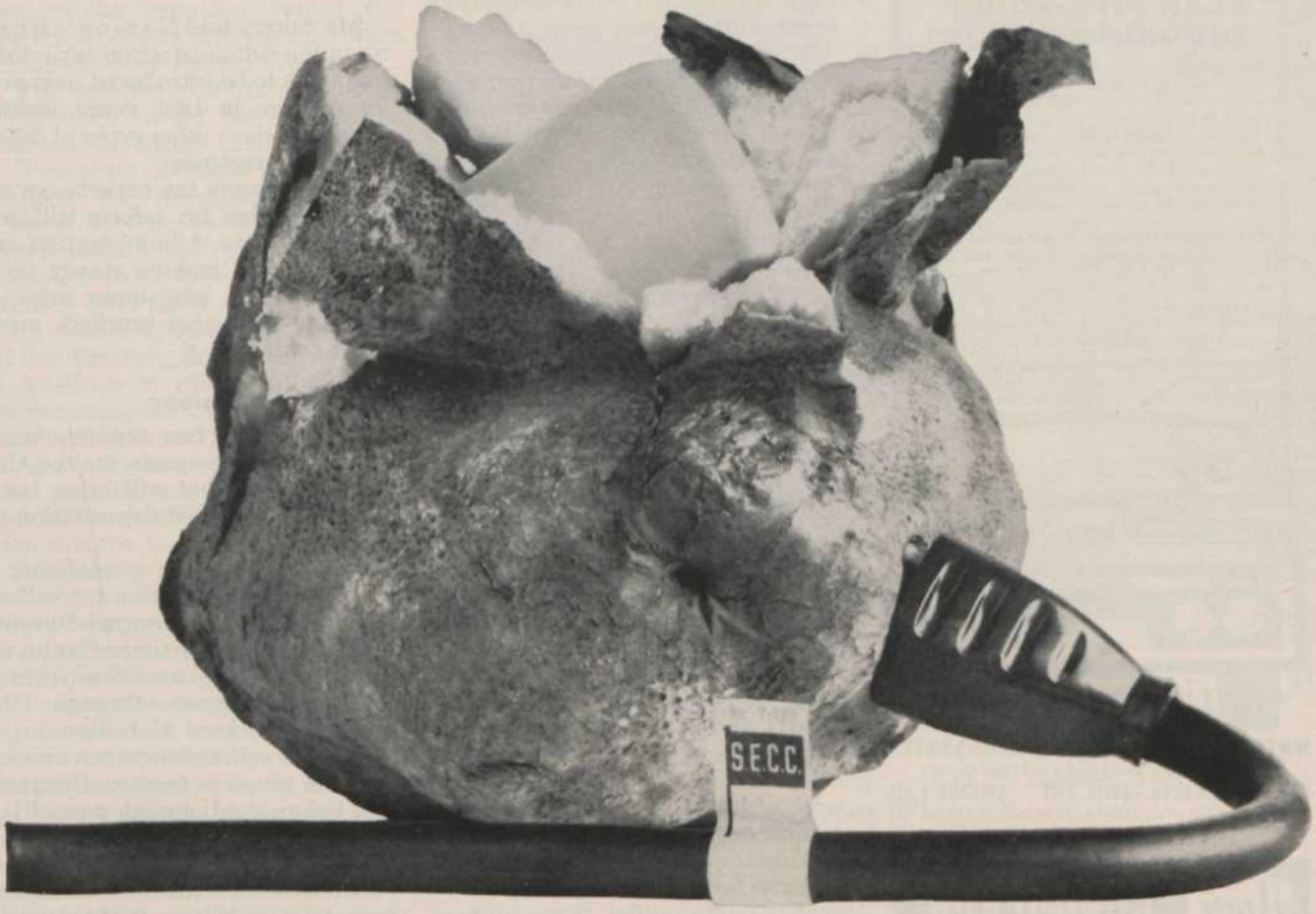
Though taxes could be reduced if the budget should show a big enough surplus, deficits have been more the rule in recent years.

Tax base broadening is generally described as the best vehicle for tax reduction now because it could be done regardless of budget deficit or surplus.

It would involve changing parts of the federal tax code which favor some taxpayers over others. For example, present taxes favor older over younger people, sick over healthy, married over single, home-owners over renters, and veterans over non-veterans.

Sociological and humanitarian reasons more than economic factors

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TAX REFORM

continued

have led to some of the deductions enacted in the past generation.

Stanley S. Surrey, assistant secretary of the Treasury in charge of tax matters, has said in analyzing the many different kinds of tax treatment that exist:

"The majority of these income tax differentials have risen almost fortuitously. They are traceable to hastily conceived *ad hoc* solutions which have since proven defective from a technical standpoint, to acquiescence in well timed and well managed pressure drives where the issues have really not been fully explored, or in decisions made early in our tax history under quite different conditions and on grounds that do not obtain today."

As another tax expert, Joseph Pechman, has pointed out, "If all the eroding features of the tax law had been eliminated, the tax base would have been $59 billion larger than it actually was in 1957 [the year on which his studies were based] and the revenues that were collected on 1957 incomes could have been raised with rates that were a third lower in every taxable income bracket."

Almost everybody is a beneficiary of some form of differential tax exclusion or deduction. Some of these are firmly entrenched as part of our tax system. There is little thought, for example, of repealing individual exemptions or wiping out medical expense deductions or taxing the public assistance income of recipients on relief.

However, here is a list of tax reform goals compiled by Mr. Surrey before he became assistant secretary of the Treasury for tax policy:

- Eliminate the exemption from taxation for interest on state and local bonds.
- Narrow the scope of the capital gains tax and raise its rate.
- Eliminate the dividend exclusion and credit.
- Include social security retirement payments as income and eliminate retirement income credit.
- Eliminate deductions for sales and excise taxes, and put a ceiling on deductions for personal interest and property taxes.
- Withhold taxes on dividend and interest income.
- Review the treatment of natural resources industries, fringe benefits and the need for a provision allowing averaging of income.
- Reduce top income tax rates to 65 per cent.
- Reduce lower brackets as revenue permits.

Mr. Surrey told NATION'S BUSINESS the Administration tax reform proposals to be introduced next year for passage in 1963 could include these and some other types of differential tax treatment.

Though some tax experts are not convinced that tax reform will ever come, both the Administration and Congress are making steady progress toward it, with lower rates, at least for the higher brackets, a primary goal.

Executive decisions

Decisions in two separate areas improve the prospects for the kind of tax reform that will bring lower rates and improved depreciation allowances.

Internal Revenue is planning to speed up its automation for collecting taxes, so that Internal Revenue Commissioner Mortimer Caplin expects within the next few years to increase revenues through this means by at least $5 billion.

The tax collector now can accelerate this program because Congress, just before it adjourned, passed legislation to require the use of taxpayer account numbers and the correlation of tax return information to keep tabs on income that taxpayers get from all sources.

When tax returns are filed in the different revenue districts around the country, they will be forwarded to nine regional service centers where vital information on the returns will be transferred to punch cards. These cards will be sent to Internal Revenue's new computer center in Martinsburg, W. Va., where information will be put on tape. Data also will be supplied on tape from information returns which must be filed with Internal Revenue by corporations that pay dividends, savings institutions paying interest, and employers who hire and pay independent contractors, for example.

The tax collector's electronic data processing equipment will be able to spot many sorts of unreported income. For instance, a firm files an information return to Internal Revenue reporting that each of four partners received, say $20,000. It will be easy electronically to check the individual income tax returns of the partners to spot whether each reported all of this income.

Or a salaried employe who also receives, say $400 during a year in

dividend income, would have to make sure this income is also reported or the electronic equipment that correlated his account number on the individual return and the corporation's information return would show up the tax evasion.

The extra revenue from this better compliance would help provide a cushion for future tax-rate cuts.

Two other decisions brighten the outlook for depreciation reform. President Kennedy ordered a new depreciation schedule for the textile industry so it can write off machinery costs faster.

In addition, Assistant Secretary of the Treasury Surrey has ordered a speed-up in the broad study of depreciation the Treasury has been conducting since 1959. The aim is to get data analyzed in the next few months so recommendations can be made to improve depreciation rules or laws.

Mr. Surrey indicates that he considers this a part of tax reform and it will be done independently of action on the investment tax credit for which he has plugged so hard.

Treasury used a survey of 6,000 businesses and a sample of 1959 tax returns to see what the current depreciation practices are in industry.

The depreciation laws were written to recognize the diminishing value of an asset as it is used in a business.

Part of the cost of such property can be deducted for tax purposes for each year of the useful life of the asset.

The present official Internal Revenue guide as to useful lives—Bulletin F—is 20 years old and admittedly as obsolete as much of the nation's plant and equipment. For example, it takes as long as 30 years to depreciate some machinery under U. S. revenue rules. In competing European countries the cost of similar equipment may be written off for tax purposes in four to eight years. In addition the cost of replacement has soared.

Treasury's depreciation study is examining actual facilities, equipment and practices to determine more truly economic lives of machinery in a variety of industries.

Treasury aides say new rules for useful lives may be issued. Or perhaps legislation will be recommended to give the taxpayer more choice in setting depreciable lives of his capital assets within ranges set for different kinds of property.

So new proposals for faster write-offs of business equipment may well be an important part of eventual tax reform. **END**



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continued from page 37

Federal expert Edward Phelps discusses plans in interview

struments are available other than those which were used during these two modern-day wars.

As to a period of international tension, however, I am not suggesting that the government will ever have to impose direct controls or related emergency economic measures. I am merely indicating that long-continued cold war and periodic increases in international tension could conceivably produce economic consequences like those in limited war.

The country and the government may face a new kind of economic problem which may make it no longer possible to cling to the classic American position that we would never use emergency mobilization measures except during actual military conflict.

Do we need stand-by authority for controls?

Ideally, the President should have authority to respond to the many kinds of emergencies in the present world environment. Because economic controls have always caused a good deal of controversy, we have never been willing in peacetime to give the President authority to impose measures customarily reserved for war.

It would be a great deal clearer to all concerned if appropriate and perhaps limited enabling authority were available at all times.

What controls do you plan in event of all-out attack?

This involves a wholly unprecedented problem. Nevertheless in the past three years the great bulk of the government's preparedness effort has been directed toward the economic consequences of nuclear attack.

The basic problems would be twofold:

On the one hand our surviving national monetary and economic system in undamaged areas would be threatened with almost automatic bankruptcy or insolvency.

On the other we would face the probability of sharp inflationary pressures and extreme shortages in those areas. But we would not have a federal government able to administer, direct and regulate in the economic field as would be the case in a more orthodox mobilization.

What are some of the answers?

We have had to devise more or less self-executing policies and objectives aimed at keeping our banking and monetary system solvent and functioning in undamaged areas. We have also started conditioning and training local and state authorities to handle postattack price and rent control and emergency rationing.

How about wage controls?

Under our plans, the Department of Labor, through its scattered Wage and Hour Offices, would handle interim wage and salary controls in undamaged areas.

Would federal legislation be needed?

Some steps might require legislation.

For instance, one of the basic national policies involves loss-sharing or indemnification designed to support the solvency and functioning of a postattack economy in undamaged areas.

Financing this may require new legislation.

Federal legislation should also support the emergency steps taken by local and state authorities to control prices and rents and ration consumer goods. This means that the President will have to be given authority in advance or he would have to proceed temporarily on the basis of his inherent emergency powers if Congress could not be convened quickly.

What progress have the state and local governments made?

About a year ago we began to help states and communities to get ready.

First we put our own regional offices in a position to help the states.

We then informed the governors what their economic responsibilities might be in the event of attack.

After the government's basic policies and objectives were widely distributed, we began a series of regional conferences to create awareness and take the first steps to develop the state and local readiness likely to be required.

How many of these conferences have been held?

Four—in New York City, San Francisco, Chicago and Los Angeles. About 1,600 individuals from the banking and financial community, the professions, labor and agriculture, and state and local governments attended.

These conferences are being followed up through appointment of stabilization advisory boards in each region and stabilization officers in each state.

It will be a long and difficult job but reasonably good progress is under way and events in the past few weeks have produced a considerable upsurge of interest.

What must the states do in case of a nuclear attack?

States and communities must learn to substitute temporarily for the federal government in undamaged areas. They must be capable of administering price and rent controls and emergency rationing until the federal government can gradually absorb these interim actions in a more cohesive national stabilization operation.

What about maintaining the currency?

Most of the preparedness work in the monetary and banking system is being carried on by the Federal Reserve, the Federal Home Loan Bank system, and other financial agencies.

This work has been carried on to a much greater extent than is known or realized.

One step has been the stockpiling of currency in strategic locations.

Who will be in charge of the money?

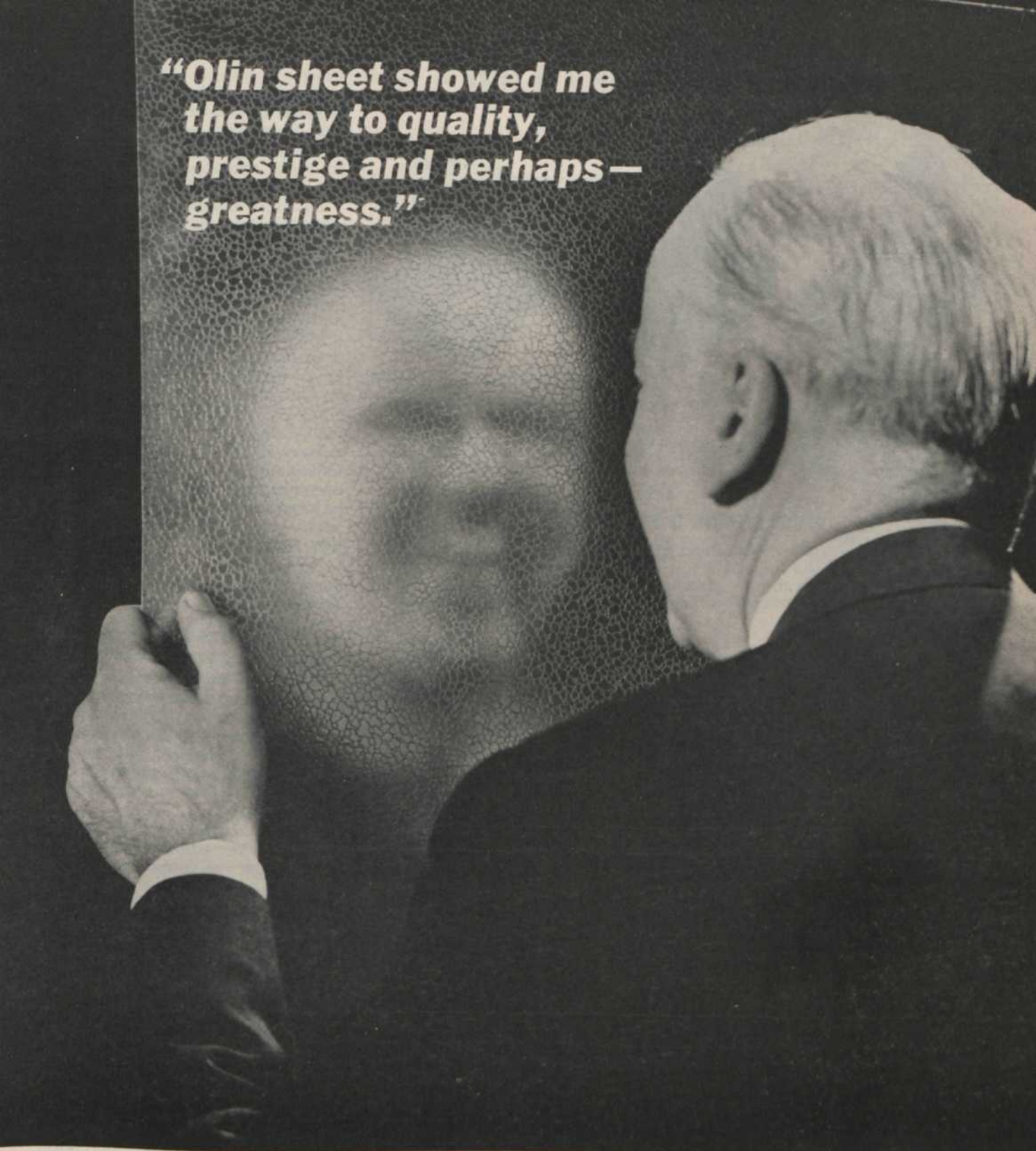
The Federal Reserve system is prepared to operate from any one of its districts, and each district has arranged a relocation site and lines of succession.

Beyond this, the Federal Reserve has designated agent banks in each Federal Reserve District, both to clear checks, whether on destroyed or surviving banks, and to distribute currency if it should be needed.

Finally, the basic banking regulations and orders aimed substantially toward a kind of self-executing response by surviving banks and financial institutions have been worked out and are being put in position throughout the country.

Aside from banks, what part is business playing in this planning?

We have tried to arrange for the



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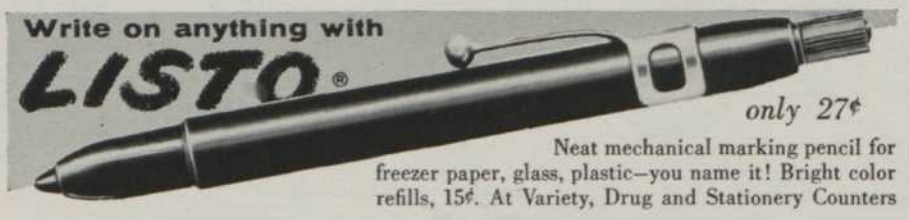
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CONTROLS

continued

participation of business and professional people as well as individuals from other segments of the economy. In general, we have tended to do this through individuals rather than through organizations.

To some extent we have relied upon a relatively small group of executive reservists and consultants, but we have also asked for advice from a great many individuals in business and elsewhere who know particular fields.

Most of our policies and objectives are outlined in broad terms in Annex 27 to the National Plan for Civil Defense and Defense Mobilization. Before this Annex was published, as an example, we circulated it among more than 100 individuals, including many business people, to get their responses or suggestions.

How may Annex 27 be obtained?

By writing to us—Office of Emergency Planning, Washington 25, D. C.

Is any thought being given to tying wage and price controls together?

Price and wage controls would be undertaken simultaneously if an emergency situation required either kind of control. But each should be treated separately and on its own merits, using standards of equity worked out specifically for that purpose.

Prices and wages should not be controlled or adjusted in terms which make one contingent on the other.

What is the effect of raising wages and prices *in anticipation* of controls?

In the national interest, businessmen should not raise either prices or wages artificially in advance of the possible imposition of economic controls.

We may be able nationally to prevent the need to impose direct controls.

Except in the case of nuclear attack, the country's economic problem is essentially how to deal with a psychological inflation, not with an inflation generated by the kind of economic transition or shortages which characterized World War II.

Are there any plans to control profits?

Controlling prices may produce what amounts to a form of profit control, particularly in some in-

dustries, or in connection with some commodities or services.

This is not and should not be the objective of price control, however.

Profit control in wartime should be treated, if at all, through special taxation. An effective and workable emergency price control operation should envisage necessary and reasonable profits.

Does your agency get into manpower controls?

No, although we have developed plans for dealing with manpower in different stages of mobilization.

Do you get into inventory controls?

Only at the retail level in connection with consumer rationing.

Should individual businesses be making preparedness plans?

It seems to me that the present world situation requires any individual or corporation responsible for the continuity of a business and for its assets and equities to think about specific forms of preparedness.

Many companies already have rather comprehensive plans for survival and operation in time of emergency. These may include duplication of records, designation of lines of succession, relocation sites, instructions to their employes and managers and so on.

We find it much more difficult to get people to take seriously some of the more intangible forms of preparedness.

What do those involve?

Awareness of the kinds of problems which the country would face following a nuclear attack and an understanding of how people might prepare themselves to help meet them.

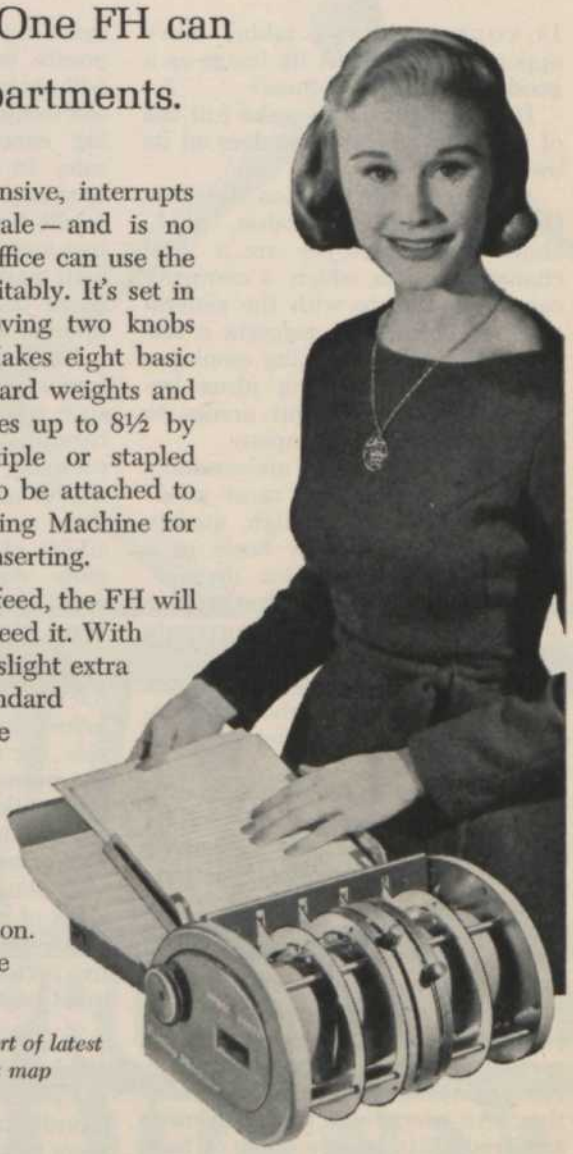
Business people should not regard any aspects of modern-day preparedness as being remote from their day-to-day interests and responsibilities. They should at least try to understand the nature and direction of the preparedness which eventually must be developed.

Given this awareness and understanding, I believe most business people will see how they and their operations might fit into the picture.

If the United States can eventually develop a capability to survive and to rebuild itself—should some kind of madness trigger the use of nuclear weapons—it will be because individuals and organizations take the development of this capability seriously and do something about it. **END**

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SIX WAYS TO BUILD GOOD WILL

These steps can make your employes ambassadors to the public

IS YOUR COMPANY taking every opportunity to boost its image as a good place to do business?

It isn't if it fails to make full use of the good will ambassadors on its own payroll.

A study by the Opinion Research Corporation of Princeton, N. J., shows that employes are a vital channel through which a company can communicate with the general public. The study suggests a six-step approach to making employes more active in getting ideas important to management across to people outside the company.

Where can employe ambassadors do their company the most good?

A reputation for high quality products or service is basic to a company's success. But management can overlook the importance of the personal side of its corporate image.

Business has a substantial stake in getting credit for showing concern for people's nonmaterial needs. For example:

The way voters see management's handling of workers displaced by automation will largely determine their stand on government actions in this field.

Businessmen increasingly find themselves forced to speak up on issues not directly related to the production of goods—federal aid to education, urban renewal, medical care for the aged, unemployment compensation, taxes, labor legislation. An executive's persuasiveness and credibility largely hinge on how people judge his motives.

Research indicates that people have a much stronger image of a company's products and customer service than of its role as an employer and corporate citizen.

How can a company obtain the help of its employes in brightening the picture which it presents to the public? Here are six steps:

1. *Choose specific communications targets.* Some managements draw up a blueprint of the corporate image they hope employes will project. One corporation in the electronics field asked policy-making executives and managers to rate, in order of importance, 29 company qualities which employes might convey to outsiders. Top ratings went to progressive leadership, high quality products, excellent employe benefits, fair wages, and an interest in people.

Employes can also talk with the conviction of personal experience on such topics as how the company is handling the impact of automation, company plans for financial security of aged workers, aid to education provided by the company, effects of foreign competition, company contributions to the community, the effect of taxes, company plans for work stabilization.

2. *Be sure the communications job at home has been accomplished before asking employes to help outside the company.* A large part of the power of person-to-person communication rests in the personal conviction of the person speaking. Unfortunately, the way employes feel about a company often falls short of management's expectations. These weak spots can be identified by periodic employe surveys and must be corrected.

3. *Seek out employes who are likely to give the greatest return for the invested effort.* "Doers" can be found simply by asking for volunteers to take part in a training program for employe ambassadors. Another step is to single out the groups which have direct contact with the public.

The two types of employes who are best suited to the role of ambassador are those who have high initiative in public affairs and those who have many friends in different levels of the population.

4. *Be sure employes have access to the information they need to be effective ambassadors.* Often employes have much less knowledge of their company than management assumes. In one company, 54 per cent of the employes did not know the name of the company president. In these cases, internal communications must be improved.

Southern Bell Telephone & Telegraph Co. relies on periodic information audits to discover communications gaps among workers and supervisors. In the last survey, employes expressed a need for more information about company policies and plans, industry developments and regulations in order to answer questions.

5. *Create opportunities which permit employe ambassadors to pyramid their influence.* In many companies, the speakers' bureau is restricted to upper management and staff specialists. If companies take the initiative, however, opportunities can be found for employes from all levels to appear before a variety of audiences. Workers with unusual occupations can speak before business and service clubs; employes active in politics can address political meetings.

Republic Steel has organized a growing corps of speakers from all levels of the corporation. Talks are given without charge at luncheon and evening meetings of local community groups. Volunteers are trained in public speaking, and details of bookings, publicity, and visual aids are handled by the speakers' bureau.

6. *Make being a company ambassador a stimulating and rewarding experience for employes.* Symbols of recognition and prestige are not costly, yet few companies use them. A "Society of Company Ambassadors" can be organized, with appropriate pins, seminars, dinners, and awards. Periodic get-togethers with top executives can be arranged. A monthly newsletter for employe ambassadors can be published. **END**



PINKERTON'S NATIONAL DETECTIVE AGENCY, INC.

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Find It Fast In The Yellow Pages

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STATEMENT required by the Act of August 24, 1912, as amended by the Acts of March 3, 1933, July 2, 1946 and June 11, 1960 (74 Stat, 208) showing the ownership, management, and circulation of NATION'S BUSINESS, published monthly at Dayton, Ohio, and Washington, D. C., for October 1, 1961.

1. The names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, Chamber of Commerce of the United States of America, Washington, D. C.; Editor, Alden H. Sypher, Washington, D. C.; Executive Editor, Paul McCrea, Washington, D. C.; Business Manager, William W. Owens, Washington, D. C.

2. The owner is: Chamber of Commerce of the United States of America, said body being an incorporated organization under the laws of the District of Columbia, its activities being governed by a Board of Directors. The officers are as follows: President: Richard Wagner, chairman of the executive committee, Champlin Oil and Refining Company, Chicago, Ill. Chairman of the Board: Arthur H. Motley, president, Parade Publications, Inc., New York, N. Y. Chairman of the Executive Committee: Erwin D. Canham, editor, *The Christian Science Monitor*, Boston, Mass. Treasurer: W. B. Camp, president, W. B. Camp & Sons, Inc., Bakersfield, Calif. Executive Vice President: Arch N. Booth, Chamber of Commerce of the U.S.A., Washington, D. C. Vice Presidents: Walter F. Carey, president, Automobile Carriers, Inc., Birmingham, Mich.; David L. Francis, president, Princess Coals, Inc., Huntington, W. Va.; Louis B. Lundborg, executive vice president, Bank of America, N. T. & S. A., San Francisco, Calif.; Robert S. Macfarlane, president, Northern Pacific Railway Company, St. Paul, Minn.; Elmer F. Pierson, chairman of the board, The Vendo Company, Kansas City, Mo.; H. Ladd Plumley, chairman of the board and president, State Mutual Life Assurance Company of America, Worcester, Mass.

3. The known bondholders, mortgagees, and other security holders owning or holding 1 percent or more of total amount of bonds, mortgages, or other securities are: None.

4. Paragraphs 2 and 3 include, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting; also the statements in the two paragraphs show the affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner.

5. The average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the 12 months preceding the date shown above was: 773,547.

WILLIAM W. OWENS
(Signature of business manager)

Sworn to and subscribed before me this 3rd day of October, 1961.

[SEAL] WILLIAM A. CREVELING
(My commission expires Nov. 14, 1963)

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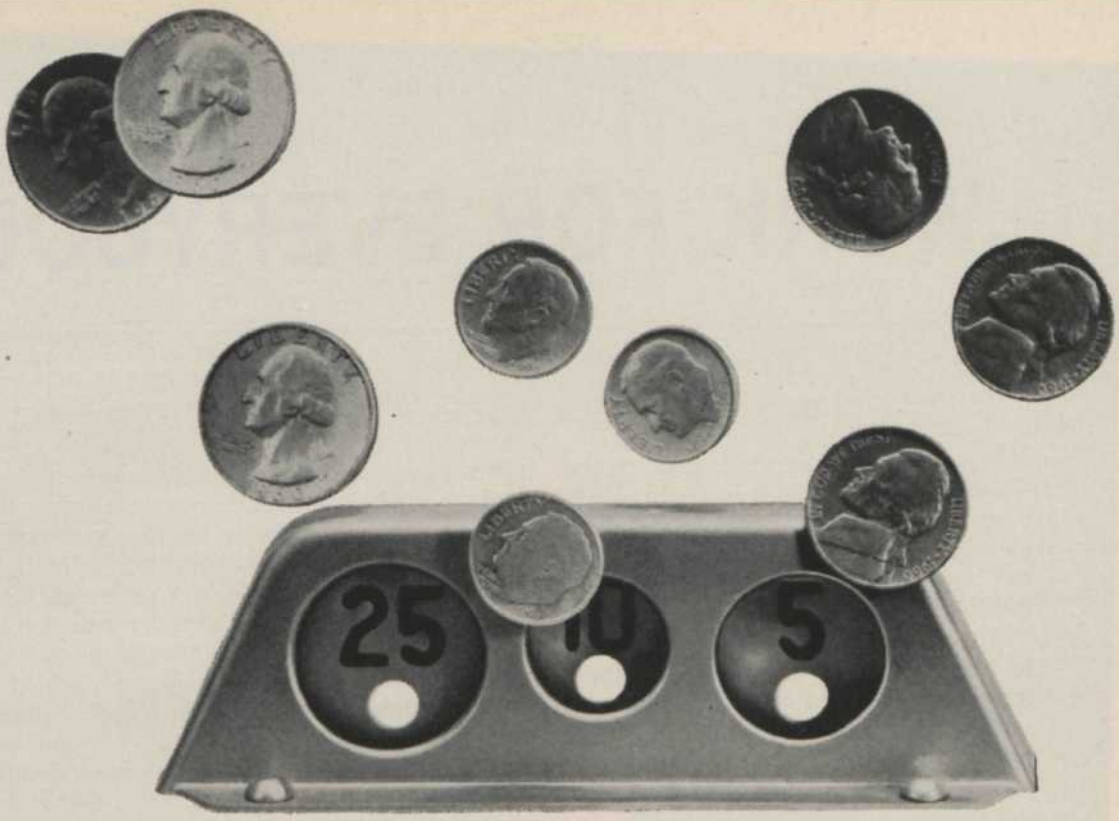
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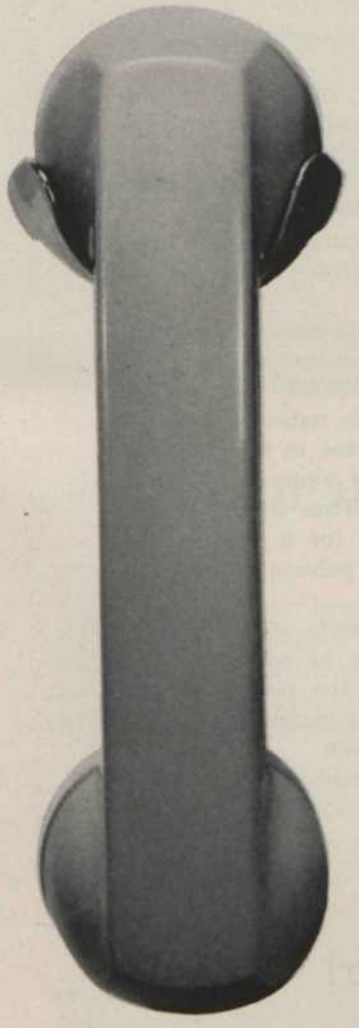


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WORK FOR EVERYBODY

YOUR CONGRESSMAN, now home from Washington, deserves your help. He has just been bombarded by a monotony of measures for which the arguments were repetitious and the purposes identical: Increase the rights of politicians to spend the people's money.

The assault will be renewed when he returns to Washington in January. Among the welfare-type measures held over from the session just ended are bills for medical care for the aged, retraining workers, aid to education, federal power projects, an Urban Affairs Department, and others.

All of these, in one way or another, strike at the basic intention of the Constitution which was to limit the powers of politicians and to leave all possible rights with the people or with the states. Succeeding generations of politicians have complained that this division of powers has limited their ability to serve. If they and the government were given the authority, they insist, they could do for the people what the people can't or don't want to do for themselves. This would speed economic growth, reduce unemployment, prevent monopoly, slow down runaway booms, stabilize prices and bring the good life to every fireside in the land.

If your congressman believes it would work out this way, you will be doing him, yourself and the country a disservice if you remain silent.

It is an unlikely coincidence that the problem areas in our economy today are those where government has had most power to control, to help or to operate.

Today politicians are urging a clutch of new government services which would protect the people against monopoly. We have seen such services at work. The railroads had a monopoly and were a handy source of taxes. In 1887 politicians undertook to regulate them. Today the railroads are no longer a monopoly but a distressed industry. Still the politicians do not relax the regulations or lessen the taxes. Instead they now consider granting subsidies to the industry they started out to control.

Politicians ask power to help the aged, the untrained, and the school children, among others.

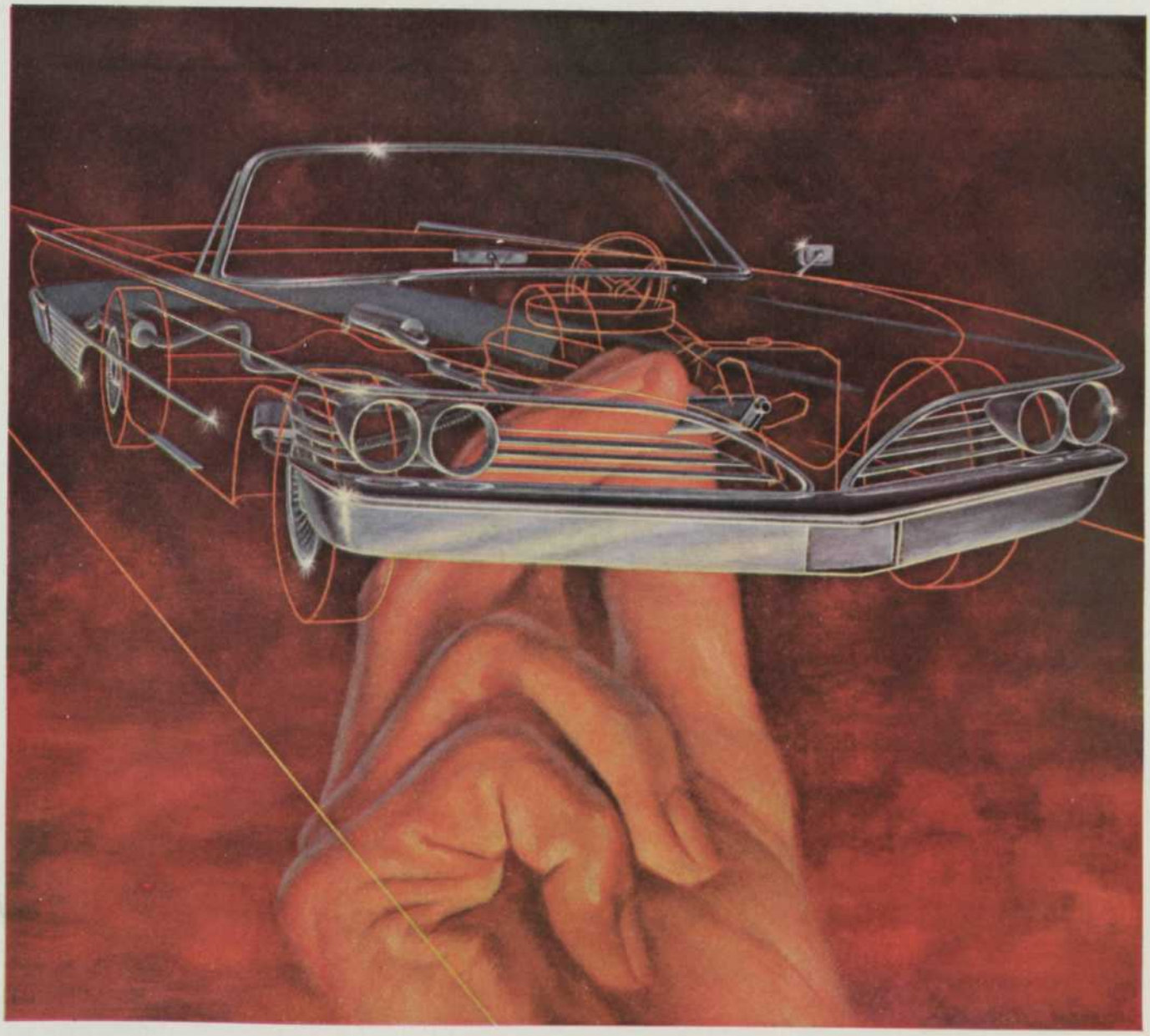
Thirty years ago they were granted the right to help the farmers. After spending more than $20 billion and amassing mountainous surpluses, the farm problem remains so acute that Congress and the Administration cannot agree on how to cope with it.

In the 1930's politicians undertook to support the workingman in his dealings with his employers. Today the President sees the need for an arsenal of new weapons to deal with strikes called by unions so strong that they can delay the defense effort, paralyze cities, and force wage increases that threaten the soundness of our money.

Even in a field where its right to serve is unchallenged, political operation shows little to recommend it. Since World War II the Post Office has swelled the national debt by $8.3 billion—half the increase in the national debt. For the current year alone it will lose more than $800 million. This is not a record to inspire enthusiasm for a government power grid to compete with private power companies.

If your congressman wants to serve you and the rest of his constituents, he will return to Washington insisting that the people be allowed to accept their responsibilities while government looks after its own.

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Look for the extra value of stainless steel

If you've ever been disappointed because the trim on your car rusts, pits or peels, the next time you buy you'll want stainless steel—the extra-value metal created by research. It's stainless all the way through . . . hard and tough . . . stands up under abuse that scratches and dents ordinary metals.

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